DOCKET

SUPREME COURT
OF THE UNITED STATES

No. 08-1423
Title: Costco Wholesale Corporation, Petitioner
v.
Omega, S.A.
Docketed: May 18, 2009
Lower Ct: United States Court of Appeals for the Ninth Circuit
Case Nos.: (07-55368, 07-52606)
Decision Date: September 3, 2008
Rehearing Denied: February 17, 2009
Questions Presented

~~Date~~	~~~~~~Proceedings and Orders~~~~~~~~~~~~~~~~~~~~
May 18 2009	Petition for a writ of certiorari filed. (Response due June 17, 2009)
Jun 2 2009	Order extending time to file response to petition to and including July 17, 2009.
Jun 4 2009	Consent to the filing of amicus briefs, in support of either party or of neither party, received from counsel for the respondent.
Jun 16 2009	Brief amicus curiae of Public Citizen, Inc. filed.
Jun 17 2009	Brief amici curiae of Public Knowledge, and Electronic Frontier Foundation filed.
Jun 17 2009	Brief amici curiae of Entertainment Merchants Association, et al. filed.
Jun 17 2009	Brief amicus curiae of eBay Inc. filed.
Jun 17 2009	Brief amici curiae of Retail Industry Leaders Association, et al. filed.
Jul 17 2009	Brief of respondent Omega, S.A. in opposition filed.
Jul 28 2009	Reply of petitioner Costco Wholesale Corporation filed.
Jul 29 2009	DISTRIBUTED for Conference of September 29, 2009.
Sep 28 2009	Supplemental brief of petitioner Costco Wholesale Corporation filed. (Distributed)
Oct 5 2009	The Solicitor General is invited to file a brief in this case expressing the views of the United States.
Mar 17 2010	Brief amicus curiae of United States filed.
Mar 29 2010	Supplemental brief of petitioner in response to brief of United States as amicus curiae filed.
Mar 31 2010	DISTRIBUTED for Conference of April 16, 2010.
Apr 19 2010	Petition GRANTED.
Apr 28 2010	The time within which to file the joint appendix and petitioner's brief on the merits is extended to and including July 2, 2010.
Apr 28 2010	The time within which to file respondent's brief on the merits is extended to and including August 31, 2010.
May 5 2010	Consent to the filing of amicus curiae briefs in support of either party or neither party received from counsel for the petitioner.
May 10 2010	Consent to the filing of amicus curiae briefs in support of either party or neither party received from counsel for the respondent.

Jul 2 2010	Joint appendix filed. (Statement of costs filed)
Jul 2 2010	Brief of petitioner Costco Wholesale Corporation filed.
Jul 8 2010	Brief amici curiae of American Library Association, et al. filed.
Jul 8 2010	Brief amici curiae of Public Knowledge, et al. filed.
Jul 9 2010	Brief amicus curiae of American Intellectual Property Law Association in support of neither party filed.
Jul 9 2010	Brief amicus curiae of Intel Corporation filed.
Jul 9 2010	Brief amicus curiae of Public Citizen filed.
Jul 9 2010	Brief amicus curiae of eBay, Inc., et al. filed.
Jul 9 2010	Brief amici curiae of Retail Industry Leaders Association, et al. filed.
Jul 9 2010	Brief amici curiae of Entertainment Merchants Association, et al. filed.
Aug 20 2010	CIRCULATED.
Aug 24 2010	SET FOR ARGUMENT ON Monday, November 8, 2010.
Aug 31 2010	Record received from U.S.C.A. for 9th Circuit. (1 envelope)
Aug 31 2010	Brief of respondent Omega, S.A. filed. (Distributed)
Sep 3 2010	Brief amicus curiae of Intellectual Property Owners Association filed.
Sep 7 2010	Motion of the Acting Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument filed.
Sep 7 2010	Brief amicus curiae of United States filed. (Distributed)
Sep 7 2010	Brief amicus curiae of American Watch Association filed. (Distributed)
Sep 7 2010	Justice Kagan is recused in this case.
Sep 7 2010	Brief amicus curiae of Business Software Alliance filed.
Sep 7 2010	Brief amicus curiae of Software & Information Industry Association filed.
Sep 7 2010	Brief amicus curiae of American Publishers filed. (Distributed)
Sep 7 2010	Brief amici curiae of Motion Picture Association of America, Inc., et al. filed. (Distributed)
Sep 7 2010	Brief amicus curiae of American Bar Association filed.
Sep 7 2010	Brief amici curiae of Fujifilm Corporation, et al. filed. (Distributed)
Sep 14 2010	Record received from U.S.D.C. for Central District of California. (5 boxes) There are sealed documents in this record.
Sep 27 2010	Reply of petitioner Costco Wholesale Corporation filed. (Distributed)
Oct 4 2010	Motion of the Acting Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument GRANTED. Justice Kagan took no part in the consideration or decision of this motion.
Nov 8 2010	Argued. For petitioner: Roy T. Englert, Jr., Washington, D.C.. For respondent: Aaron M. Panner, Washington, D.C.; and Malcolm L. Stewart, Deputy Solicitor General, Department of Justice, Washington, D.C. (for United States, as amicus curiae.)
Dec 13 2010	Adjudged to be AFFIRMED by an equally divided Court. Justice Kagan took no part in the consideration or decision of this case.

PETITION FOR WRIT OF CERTIORARI

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Supreme Court, U.S.
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OFFICE OF THE CLERK

No.

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

Counsel for Petitioner

QUESTION PRESENTED

Under the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), the owner of any particular copy "lawfully made under this title" may resell that good without the authority of the copyright holder. In *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998), this Court posed the question presented as "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." In the decision below, the Ninth Circuit held that *Quality King* (which answered that question affirmatively) is limited to its facts, which involved goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

RULE 14.1(b) AND 29.6 STATEMENT

Pursuant to Supreme Court Rule 14.1(b), petitioner, Costco Wholesale Corporation states that all parties to the proceeding below appear in the caption of the case on the cover page.

Pursuant to Supreme Court Rule 29.6, petitioner states that Davis Selected Advisers, LP controls 10% or more of petitioner's corporate stock.

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PETITION FOR A WRIT OF CERTIORARI

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-17a) is reported at 541 F.3d 982. The district court's order granting petitioner's motion for summary judgment (App., *infra*, 18a-19a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on September 3, 2008. App., *infra*, 1a. Rehearing was denied on February 17, 2009. App., *infra*, 20a-21a. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 109(a) provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 602(a) (renumbered as § 602(a)(1) in 2008) provides in pertinent part:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

STATEMENT

This action arises out of the efforts of respondent Omega, S.A. ("Omega"), to prevent petitioner Costco Wholesale Corporation ("Costco") from reselling watches originally sold by Omega to authorized foreign distributors. Lacking any contractual basis for restricting Costco's sales, Omega affixed a symbol to its watches that it later registered under the Copyright Act in order to use the Act to control the importation and sale of its watches into the United States. The Ninth Circuit condoned that action, holding that the Copyright Act grants U.S. copyright holders complete control over the resale, redistribution, and importation into the United States of any copyrighted works they manufacture abroad, *even after those works are sold to others*. In doing so, the lower court gutted the venerable "first-sale doctrine," well summarized by this Court more than one hundred years ago: "[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the [copy] shall be sold at retail by future purchasers, with whom there is no privity of contract." *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 350 (1908).

The Ninth Circuit's opinion is inconsistent with both the plain language of the Copyright Act and this Court's interpretation of it in *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998). The Ninth Circuit failed to follow this Court's unanimous direction to "[r]ead literally" the "unambiguous[]" text of the statute, *id.* at 145, instead choosing to narrow that statute and this Court's opinion to preserve the Ninth Circuit's own, irreconcilable precedents. The court of appeals articulated a stark dichotomy between copies manufac-

tured abroad and then imported into the United States (for which the first-sale defense is not available), and copies manufactured in the United States, sold abroad, and subsequently re-imported (for which the first-sale defense is available). That dichotomy has no basis in law or logic, yet carries severe consequences, not intended by Congress, for manufacturers, retailers, and consumers in the United States. This Court should grant certiorari to reiterate that the Court meant what it said in *Quality King*, and to forestall needless damage to the nation's economy.

A. The Copyright Act and *Quality King*

The Copyright Act grants copyright holders certain exclusive rights, among them the right to distribute – or to authorize others to distribute – copies of their work by sale or other transfer of ownership. *See* 17 U.S.C. § 106(3). This distribution right is extended in § 602(a), which provides, in relevant part, that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106." 17 U.S.C. § 602(a) (renumbered as § 602(a)(1) in 2008).

The exclusive rights provided for in § 106, however, are not absolute. Rather, they are subject to a number of important and well-known limitations that are codified in later sections of the Copyright Act, including the rights of fair use, *see* 17 U.S.C. § 107, and educational use, *see* 17 U.S.C. § 110. Also among these limits is the so-called *first-sale doctrine*, which provides that:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phon-

> orecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a) (emphasis added). The phrase "lawfully made under this title" is not explicitly defined in the Act.

In *Quality King*, this Court analyzed the interaction of §§ 106(3), 602(a), and 109(a). Specifically, the Court addressed whether the first-sale doctrine limits the importation right provided for in § 602(a). Following the text of the statute, the Court held that "since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right 'under section 106,' and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners" of lawfully made products that import and resell them in the United States. *Quality King*, 523 U.S. at 145. Once a lawful first sale has occurred, even unauthorized resales do not infringe the copyright owner's exclusive right to distribute. *Id.* at 143. "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Id.* at 152.

B. Factual Background

Omega manufactures watches in Switzerland and sells them globally through a network of authorized distributors and retailers. *See* Court of Appeals Supplemental Excerpts of Record ("CASER") 61, 239-257. Costco is a membership warehouse club well

known for selling genuine brand-name merchandise to its members at prices lower than its competitors.

For many years, Costco sold Omega watches that it had legally obtained through third parties who imported them into the United States.[1] Among the Omega watches sold by Costco was a model known as the "Seamaster." Costco sold the Seamaster for $1,299, more than one-third less than Omega's suggested retail price of $1,999. CASER 61, 79-82. Costco also guaranteed its sales with a lifetime return policy that far surpassed Omega's own three-year limited warranty. *Id.* at 196, 258-260. Costco's superior price and customer service threatened other Omega retailers, who complained about the competition. *Id.* at 33-35.

Starting in 2003, for the express purpose of invoking the Copyright Act to restrict the resale of its products, Omega engraved a small emblem, less than one-half centimeter in diameter, referred to as the "Omega Globe Design," on the back of its Seamaster watch. CASER 238. That design was registered with the United States Copyright Office. *Id.* at 60-61.

In 2004, Costco purchased 117 Seamaster watches from an American supplier. CASER 61. Discovery revealed that some number of those watches were originally sold by Omega to authorized foreign distributors in Egypt and Paraguay, who subsequently resold them into the regular stream of commerce. *Id.* at 175. Costco bought the watches

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[1] Goods legally produced and purchased abroad but imported without the permission of the copyright holder are sometimes referred to as secondary-market goods or gray-market goods, though this Court has discouraged the use of the latter term to describe the issues raised here. *See Quality King*, 523 U.S. at 153.

only after they had been imported into the United States. *Id.* at 54-57, 61.

C. Proceedings Below

After Costco's sale of 43 Seasmaster watches in 2004, Omega filed suit alleging that Costco's acquisition and sale of the watches constituted copyright infringement under 17 U.S.C. §§ 106(3) and 602(a). Court of Appeals Excerpts of Record ("CAER") 132. Omega moved for summary judgment. *Id.* at 148. Costco filed a cross-motion on the basis of 17 U.S.C. § 109(a), arguing that, under the first-sale doctrine, Omega's initial foreign sale of the watches precluded claims of infringing distribution and importation in connection with Costco's subsequent sales. The district court ruled in favor of Costco without explanation. App., *infra*, 18a-19a.

The Ninth Circuit reversed, citing its own precedent in *BMG Music* v. *Perez*, 952 F.2d 318 (9th Cir. 1991). The panel in *BMG Music* had held that the phrase "lawfully made under this title" in § 109(a) "grant[s] first sale protection only to copies legally made and sold in the United States." 952 F.2d at 319 (following *CBS* v. *Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984)). The court gave two rationales for that interpretation. First, "[c]onstruing [§] 109(a) as superseding the prohibition on importation set forth in . . . § 602 would render § 602 virtually meaningless." *Id.* (quoting *Scorpio*, 569 F. Supp. at 49). Second, recognizing a first-sale defense as to goods manufactured abroad would impermissibly extend the Copyright Act extraterritorially. *See id.* (citing *Scorpio*, 569 F. Supp. at 49).

The Ninth Circuit in the present case viewed its task as determining whether this Court's decision in

Quality King had undermined *BMG Music*. The Ninth Circuit concluded that this Court's decision was distinguishable on two grounds. First, "the facts [of *Quality King*] involved only domestically manufactured copies." App., *infra*, 10a. Justice Ginsburg, in a one-paragraph concurrence, had opined that, because the copies at issue in *Quality King* had originated in the United States, the Court's unanimous opinion did not "resolve cases in which the allegedly infringing imports were manufactured abroad." *Quality King*, 523 U.S. at 154 (Ginsburg, J., concurring). Though no other Justice joined her concurrence, the Ninth Circuit treated it as controlling because "[t]he majority opinion did not dispute this interpretation." App., *infra*, 15a. Second, the court of appeals suggested that this Court never "discussed the scope of § 109(a) or defined what 'lawfully made under this title' means." App., *infra*, 10a. Those two considerations, the lower court concluded, meant that *Quality King* was not "clearly irreconcilable" with the rule it enunciated in *BMG Music*, and that the rule could be applied to bar Costco's reliance on § 109(a). App., *infra*, 11a.

REASONS FOR GRANTING THE PETITION

The decision of the court of appeals conflicts with the plain language of 17 U.S.C. § 109(a), with its legislative history, and with this Court's straightforward interpretation of the statutory text. The phrase "lawfully made under this title" is used throughout the Copyright Act, and makes perfect sense when read to mean nothing more than *according to, or as defined by, this title*. In contrast, the Ninth Circuit's holding that the phrase means *made in the United States* makes little sense at all and introduces into the statute numerous absurdities that the lower court did not even acknowledge, let alone

explain. Moreover, the Ninth Circuit's definition lacks any basis in the legislative history of the statute and is based solely on circuit precedent that was undermined by this Court's unanimous decision in *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), which unambiguously held that the first-sale doctrine applies to imported copies, without concern for the place of manufacturing.

Though the distinction between goods made at home and those made abroad has no basis in the Copyright Act, as long as such a distinction exists in the case law it will have severe consequences for the U.S. economy. Manufacturers who sell globally will prefer to manufacture their goods abroad because of the increased control they will gain over subsequent use of their products. Conversely, retailers will be hesitant to sell such products for fear of unintended liability for infringement. Moreover, by absolving goods manufactured abroad from the first-sale doctrine, the Ninth Circuit's decision gives rise to a number of absurd outcomes unintended by Congress, including copyright infringement liability for libraries that lend foreign books or movies.

Without review by this Court, those erroneous outcomes are very unlikely to be corrected. Both the Ninth Circuit and the lower courts have for many years now completely overlooked the statutory text at issue, even after this Court's clear and unanimous instruction to "[r]ead literally" the "unambiguous[]" text of § 109(a). *Quality King*, 523 U.S. at 145. Some, like the Ninth Circuit, have become enamored of policy disputes. Others have announced a result with no analysis or treated a lone concurrence as the law of the land. None has followed *Quality King*. The time is therefore ripe for this Court again to refocus analysis on the Copyright Act itself, which re-

quires application of the first-sale doctrine to goods made and sold abroad.

I. THE NINTH CIRCUIT'S OPINION IS INCONSISTENT WITH THE PLAIN LANGUAGE OF THE COPYRIGHT ACT AND WITH THIS COURT'S INTERPRETATION OF THAT LANGUAGE IN *QUALITY KING*

The first-sale doctrine, codified in 17 U.S.C. § 109(a), limits distribution and importation liability for owners of copies "lawfully made under this title." The scope of the doctrine – and the validity of the lower court's holding – thus turns on the interpretation of those five words.

A. Though not explicitly defined in the Copyright Act, the phrase "lawfully made under this title" easily can be understood in light of "the normal meaning of the language chosen by Congress." *See Regents of Univ. of Cal.* v. *Pub. Emp. Rel. Bd.*, 485 U.S. 589, 595 (1988). In its normal usage, the phrase would seem to mean nothing more than *made pursuant to, or in compliance with, the Copyright Act.*[2] Here, because Omega is the U.S. copyright holder, any copies that it makes are necessarily in compli-

[2] A virtually identical definition was employed by the Court in *New York Gaslight Club, Inc.* v. *Carey*, 447 U.S. 54 (1980), for example. In evaluating whether a state administrative claim required under 42 U.S.C. § 2000e-5(k) constituted a proceeding "under this title," the Court simply looked at various aspects of Title 42, among them "the language and history of the statute" itself. *Id.* at 61. The mode of analysis used by the Court was entirely uncontroversial; though the Court's holding was not unanimous, there was not even the mere suggestion that the phrase "under this title" meant anything other than *according to Title 42*.

ance with 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to make or authorize copies. As a result, any copies made by Omega are "lawfully made under this title" and, therefore, subject to the first-sale doctrine.

This Court has long recognized that "[a] provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme because the same terminology is used elsewhere in a context that makes its meaning clear, or because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law." *United Sav. Ass'n of Texas* v. *Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988) (internal citations omitted). Here, the phrase "lawfully made under this title" is used two other times in Title 17, and in both of those instances the straightforward, literal definition advanced by Costco makes perfect sense. In contrast, the Ninth Circuit's holding that the phrase can only mean "made and sold in the United States," App., *infra*, 8a, makes little sense. In fact, that definition introduces considerable absurdity that the Ninth Circuit failed even to acknowledge, let alone explain.

In 17 U.S.C. § 110, for example, the Copyright Act exempts from liability copies that are "lawfully made under this title" for educational use. Under Costco's reading of that phrase, § 110 would permit teachers to use lawful copies of books, recordings, and other media, while sensibly limiting their use of piratical copies, which are obviously not "lawfully made." Were the Ninth Circuit's contrary understanding correct, however, teachers would be liable for copyright infringement if they simply chose to expose their students to non-piratical foreign-made re-

cordings of classical music because the safe harbor created by 17 U.S.C. § 110 would be inapplicable.

Even more nonsensical consequences result from applying the lower's courts definition to requirements introduced into Title 17 by the Audio Home Recording Act ("AHRA"), 17 U.S.C. §§ 1001 *et seq.*[3] Section 1004(b) of the AHRA provides for a royalty payment "for each digital audio recording medium imported into and distributed in the United States, or manufactured and distributed in the United States." Section 1006(a) goes on to provide that those royalties shall be distributed to those whose musical works or sound recordings have been "embodied in a digital musical recording or an analog musical recording *lawfully made under this title* that has been distributed." 17 U.S.C. § 1006(a)(1)(A) (emphasis added).

Costco's reading of the operative phrase to mean simply *according to the Copyright Act* properly enables § 1004 and § 1006 to be read in harmony. If, however, the phase "lawfully made under this title" referred only to copies manufactured in the United States, no royalty payments under § 1006 would be due on digital audio recording media manufactured abroad and imported into the United States, in direct contravention of § 1004(b), which explicitly provides for such payments. "It is well established that when the statute's language is plain, the sole function of the courts – at least where the disposition required by the text is not absurd – is to enforce it according to its terms." *Lamie* v. *U.S. Trustee*, 540 U.S. 526,

[3] The AHRA regulates the importation and distribution of audio recording devices and media and requires royalty payments to be paid to copyright owners by manufacturers, importers, or distributors of such products.

534 (2004) (internal quotations and citation omitted). The lower court's interpretation turns this canon on its head by simultaneously departing from the text and *creating* absurd results.

The lower court's definition also fails to recognize that when Congress intends to call attention to the location of manufacturing – and, as in § 1004(b) of the AHRA, it often does – it does so explicitly and in plain English.[4] A prime example is the Copyright Act's now-expired "manufacturing requirement," where Congress used the phrases "under this title" and "manufactured in the United States" in the very same sentence. *See* 17 U.S.C. § 601 ("the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States* or Canada") (emphasis added). The use of both phrases in the same sentence demonstrates that they are not equivalent, and that, if Congress meant to limit § 109 to goods manufactured in the United States, it would have done so explicitly. *See Nken* v. *Holder*, 129 S. Ct. 1749, ___ (2009) (slip op. at 11) ("[W]here Congress includes particular language in one section of a statute but omits it in another section of the

[4] *See, e.g.*, 15 U.S.C. § 1124 (banning the importation of goods that, inter alia, "bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States"); 19 U.S.C. § 1673c(l)(2) (providing for penalties in certain situations where a trading partner "no longer prevents the suppression or undercutting of domestic prices of merchandise manufactured in the United States"); 14 U.S.C. § 97(a)(1) ("the Coast Guard may not procure buoy chain that is not manufactured in the United States").

same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.") (internal quotation marks omitted); *accord Dean* v. *United States*, 129 S. Ct. 1849, ___ (2009) (slip op. at 4). *See also Sebastian Int'l Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) (addressing the phrase "lawfully made under this title" in § 109(a) and noting that "[w]hen Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern").

B. The Court's holding in *Quality King* – that the first-sale doctrine in § 109(a) limits the importation right in § 602(a) – did not require enunciation of an explicit definition of the phrase "lawfully made under this title." But the principle that the phrase encompasses any copies made by the U.S. copyright holder, *regardless of location*, follows from the Court's treatment of the statutory text. Recognizing that the first-sale doctrine "does not apply to 'any copy,'" *Quality King*, 523 U.S. at 142 n.9, the Court identified two types of copies that would *not* be considered "lawfully made under this title." The first was "piratical copies, of course, because such copies were not 'lawfully made.'" *Quality King*, 523 U.S. at 146 n.17. The second was "copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147. To clarify the scope of this second category, the Court provided a hypothetical example:

> If the author of [a] work gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of [a] United States edition and the exclusive British distribution rights to the publisher of [a] British edition

> . . . presumably only those made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a). The first-sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

Quality King, 541 U.S. at 148. The court of appeals read "this illustration [to] suggest[] that 'lawfully made under this title' refers *exclusively* to copies of U.S.-copyrighted works that are made domestically." App., *infra*, 14a (emphasis added). But the illustration does no such thing. Indeed, it does not refer to a place of manufacture at all, only to "rights" granted. This treatment conforms perfectly with a definition of "lawfully made under this title" that turns on the *rights created or granted by Title 17*. Obviously, if a copyright owner gives exclusive American publishing rights to Person A, and exclusive British publishing rights to Person B, A's books are "lawfully made under this title" (*i.e.*, the Copyright Act) even if they are manufactured in Mexico. Conversely, B's books are not lawfully made under the Copyright Act, *even if they are made in the United States*, because B did not receive U.S. rights from the copyright owner.

C. The legislative history further confirms that "lawfully made under this title" simply means *according to the Copyright Act*, and not *made in the United States*. For example, the legislative history notes that copies "lawfully made under this title" include some types that were "not necessarily [made] with the copyright owner's authorization," among

them, copies "legally made under the compulsory licensing provisions of section 115."[5] H.R. Rep. No. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693. That comment makes sense if the phrase "lawfully made under this title" refers simply to the surrounding provisions of Title 17; for purposes of the first-sale doctrine, there is no logical reason to treat copies authorized by a copyright owner differently than those made under a compulsory license. Yet that is precisely the result that would follow from the lower court's interpretation of the phrase "lawfully made under this title"; under that interpretation, a rerecording of a U.S. copyrighted song made abroad might not be subject to the first-sale rule, *even if the artist making the rerecording paid for a compulsory license and abided by the other requirements of § 115*. The Ninth Circuit's interpretation therefore conflicts not only with logic, but with the legislative history of statute as well.

Analysis of the transition to § 109 from its predecessor also undercuts the Ninth Circuit's holding. Section 109 replaced § 27 of the 1909 Copyright Act, which stated: "[N]othing in this title shall be deemed to forbid, prevent, prevent, or restrict the transfer of any copy of a copyrighted work *the possession of which has been lawfully obtained*." Act of Mar. 4, 1909, ch. 320, § 27, 25 Stat. 1075, 1084 (1909) (amended 1976) (emphasis added). This Court characterized the two acts as having "comparable limitation[s]," *Quality King*, 523 U.S. at 142, and it is sen-

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[5] Section 115 provides that, once a copyright holder records a composition and distributes it to the public, others are also entitled to record and distribute copies of that composition, subject to the payment of statutory royalties and other minimal requirements.

sible to conclude that "lawfully made" in the 1976 Act drew its meaning from "lawfully obtained" in the 1909 Act. *Cf. Keene Corp.* v. *United States*, 508 U.S. 200, 210 (1993) (predecessor provisions can "shed some light" on current ones); *ICC* v. *J-T Transp. Co.*, 368 U.S. 81, 127-128 (1961) (Frankfurter, J., dissenting) ("we are guided primarily by an investigation of the prior law as it sheds light on" congressional intent). The words "lawfully obtained" in § 27 of the 1909 Copyright Act did not refer to the locality of manufacturing or first sale, and there is no evidence to suggest that changes made by the 1976 Act were meant to introduce such a factor.[6]

D. The decision below does more than merely misinterpret the statutory text and its history, however. It also blatantly ignores clear principles articulated clearly and unanimously by this Court in *Quality King*. In even the most narrow recitation of the question presented in *Quality King*, for example, this Court indicated its intention to articulate a principle of law, not just a determination on the facts: "More

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[6] *See* Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., Copyright Law Revision Part 5: 1964 Revision Bill with Discussion & Comments 66 (Comm. Print 1965) (Barbara Ringer, member of the Copyright Office's General Revision Steering Committee, stating: "The basic purpose of [§ 109(a)] is to make clear that full ownership of a lawfully-made copy authorizes its owner to dispose of it freely, and that this privilege does not extend to copies obtained otherwise than by sale or other lawful disposition. In other words, if you obtain a copy by loan or by rental, you are not free to dispose of it freely or to use it in any way you see fit."). The Court in *Quality King* acknowledged this rationale for the statute's amendment when it observed that "the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." 523 U.S. at 146-147.

narrowly, the question is whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." *Quality King*, 523 U.S. at 138. *See also* 2 NIMMER ON COPYRIGHT § 8.12[B][6][c], at 8-176 (3d ed. 2007) ("[T]he entire way that the Court encapsulated the inquiry before it indicates that its ruling should be given a broad sweep, instead of being confined to the operative facts at play in that particular case."). That question did not distinguish between the importation of copies manufactured abroad and the "re-importation" of goods originally manufactured in the United States.

More to the point, the primary rationale articulated in *BMG Music*, that recognizing § 109(a) in importation cases would render § 602(a) meaningless, was squarely rejected by the Court as *Quality King*'s core holding because of "several flaws in th[e] argument." 523 U.S. at 146. In particular, the Court emphasized that the argument rested on a faulty "assumption that the coverage of [§ 602(a)] is coextensive with the coverage of § 109(a)." *Id.* at 148. A reading of the statute reveals that the assumption is false: § 602(a) "is, in fact, broader because it encompasses copies that are not subject to the first sale doctrine." *Id.* In particular, as noted earlier, the first-sale doctrine applies neither to piratical copies, *id.* at 146 n.17, nor to copies lawfully made under foreign law, *id.* at 147, because in both cases such copies are not "lawfully made under this title." Thus, the Court concluded, although there may be considerable overlap between the first-sale doctrine and § 602(a), "the former does not subsume the latter; those provisions retain significant independent meaning." *Id.* at 148-149.

Nor can the second rationale relied on by the court of appeals, that recognizing a first-sale defense

as to goods manufactured abroad "would amount to an extraterritorial application of the Copyright Act," be reconciled with the express reasoning of *Quality King*. The argument was noted, without being addressed or otherwise validated, in Justice Ginsburg's *Quality King* concurrence. 523 U.S. at 154. And it has been the basis for a number of recent district court opinions, many of which treat Justice Ginsburg's concurrence as though it were controlling without any consideration of the issue.[7] The argument, however, misinterprets or flatly ignores several aspects of *Quality King*.

First, the Court in *Quality King* addressed – and squarely rejected – an argument virtually identical to that adopted by the Ninth Circuit. Respondent in *Quality King* had argued that the first-sale doctrine should not apply when that first sale is made abroad. 523 U.S at 145 n.14. Its rationale was that "[a] distribution of copyrighted goods outside the United States is not an exercise of the Section 106(3) right, but rather an exercise of rights conferred by foreign copyright law," and therefore, "[b]ecause a distribution of copyrighted works outside the United States is not an exercise of the Section 106(3) United States distribution right, the Section 106(3) right and Section 602(a) right cannot be extinguished by [a] distribution outside the United States." Brief for Respondent at 27, *Quality King*, 523 U.S. 135 (1998) (No. 96-1470). This Court flatly rejected that argument, holding that a defendant's invocation of the first-sale doctrine "does *not* require the extraterritorial application of the Act any more than § 602(a)'s

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[7] *See infra* notes 11-13 and surrounding text.

'acquired abroad' language does." 523 U.S at 145 n.14 (emphasis added).

Characteristic of its general disregard of *Quality King*, the Ninth Circuit attempted to distinguish it from this action by concluding that in the case addressed by this Court "the statute merely acknowledges the occurrence of a foreign event as a relevant fact," while in Costco's case "application [of the statute] would go much further." App., *infra*, 12a. According to the Ninth Circuit, applying the first-sale doctrine "would mean that a copyright owner's foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application." *Id.* at 13a. But that purported distinction makes no sense: Permitting use of the first-sale doctrine here requires nothing more than a factual determination about whether the manufacturer abroad is the U.S. copyright holder, just as permitting use of the first-sale doctrine in *Quality King* required nothing more than a factual determination about whether the distributor abroad was the U.S. copyright holder.

Second, the court of appeals, following both *Scorpio* and *BMG Music*, misconceived the purpose and application of the rule against extraterritoriality. That rule is meant "to protect against unintended clashes between our laws and those of other nations which could result in international discord," *EEOC* v. *Arab. Am. Oil Co.*, 499 U.S. 244, 248 (1991), by "restricting federal statutes from reaching *conduct* beyond U.S. borders," *Small* v. *United States*, 544 U.S. 385, 400 (2007) (Thomas, J., dissenting) (emphasis added), unless Congress clearly states otherwise. As the U.S. District Court for the Northern District of California recently emphasized when confronted

with a similar argument in the context of the foreign sale of a product with a U.S. patent:

> [T]he concept of "extraterritorial effect" refers to *imposing liability* under United States law for conduct occurring outside the United States. Holding that exhaustion is triggered by the authorized foreign sale of a patented product does not impose liability of this sort, and thus does not amount to giving extraterritorial effect to the patent law.

LG Elecs., Inc. v. *Hitachi, Ltd.*, No. C 07-6511, 2009 WL 667232, at *11 (N.D. Cal. Mar. 13, 2009) (emphasis added and internal citations omitted). The issue here is not how U.S. copyright law is applied in other countries but whether it bans a particular importation into *this* country; there is no applicable rule regulating conduct abroad here. Accordingly, barring use of the first-sale doctrine as an affirmative defense in an action brought by a *U.S. copyright holder* alleging infringement of *U.S. copyright* simply turns the rule against extraterritoriality on its head, creating further need for this Court's review.

II. THE ISSUE IS OF GREAT IMPORTANCE

The decision below should be examined by this Court because of the significant impact it has on an important component of the U.S. economy. "Because of its relatively open markets and historically strong currency, the United States has developed a large gray market economy." John C. Cozine, *Fade to Black? The Fate of the Gray Market After* L'anza Research International, Inc. v. Quality King Distributors, Inc., 66 CINCINNATI L. REV. 775, 778 (1998). Indeed, the size of the secondary market for information technology alone is currently estimated to be

more than $40 billion annually. *See* Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Accounting & Management Unit Working Paper No. 09-098, at 1 (Feb. 25, 2009). This is a dramatic increase over just twenty years ago. *See* Frank V. Cespedes, *et al.*, *Gray Markets: Causes and Cures*, 66 HARV. BUS. REV. 75 (July-Aug. 1988) (estimating the entire U.S. secondary market to be seven to ten billion dollars annually).

The Ninth Circuit's opinion gives copyright holders an unfettered right to eliminate these secondary markets, and the American jobs and tax revenue that flow from them. By granting greater protections to goods made abroad than to those made at home, the Ninth Circuit's opinion creates perverse incentives, not intended by Congress, for United States copyright owners to produce all copies of their copyrighted works outside the United States.[8] *See, e.g.*, Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 142 n.380 (2001) ("A policy that allows exclusion of gray market goods that are manufactured abroad provides an inefficient incentive to shift domestic production abroad."); Elie Dugan, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court Deci-*

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[8] In the analogous area of patent exhaustion, one court recently noted that "[d]rawing such a distinction between authorized domestic sales and authorized foreign sales would negate the Supreme Court's stated intent in *Quanta* [*Computer, Inc.* v. *LG Elecs., Inc.*, 128 S. Ct. 2109 (2008)] to eliminate the possibility of a patent holder doing an 'end-run' around the exhaustion doctrine by authorizing a sale, thereby reaping the benefit of its patent, then suing a downstream purchaser for patent infringement." *LG Elecs.*, 2009 WL 667232, at *10. Analogous concerns are present here.

sions Affecting the U.S. and European Gray Markets, 33 GEO. WASH. INT'L L. REV. 397, 406 (2001) (characterizing the phenomenon as "loophole" that "does not bode well for employment in the United States" and that "can hardly be seen as positive"). Not only would such a result lack any legal basis, but it lacks any policy rationale as well. *See* Meurer, *supra*, 23 CARDOZO L. REV. at 142 n.379 (noting that it is "hard to find any policy basis for treating the two cases [*i.e.*, manufactured at home or abroad] differently"). This problem is exacerbated because it is easy for copyright holders to apply a copyrighted symbol, label, or package to almost any good offered for sale in the United States.

The Ninth Circuit's decision not only distorts incentives for manufacturers, but does so for downstream retailers as well. Neither the mass-market chain that imports billions of dollars of goods for resale each year, *nor* the small local shop that purchases its inventory from middleman exporters and distributors, can always know the provenance of lawfully made goods first sold abroad and imported for sale in the United States. Where (as here) the copyright owner places no copyright notice on the goods, retailers have no reasonable way to ascertain whether anything about the goods is protected by copyright. This is particularly true in cases in which the copyrighted work is at best ancillary to the goods consumers purchase. If copyright owners had the right to prevent importation of lawfully made goods, the retail industry would have less confidence to sell non-piratical goods acquired from an independent exporter or importer. *See Disenos Artisticos E Industriales S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) (noting that, if the first-sale doctrine were not applicable to imported goods then

"every little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back").

Despite *Quality King*, given the practical difficulties in assuring the provenance of imported goods, retailers would be loath even to re-import goods produced in the United States, forgoing the opportunity to purchase and sell those goods at all rather than risk the expense of litigation, potential injunctive relief, seizure and loss of inventory, and/or statutory damages. Ensuring that the first-sale doctrine is applied to lawfully made goods, regardless of where they are manufactured, thus secures the rights of everyone along the chain of commerce – the first foreign purchaser, the exporter, the importer, the domestic distributor, and/or the retailer – to sell at retail in the United States lawfully made goods legally acquired abroad.

The damage caused by the decision below is not limited to industry, however. It causes substantial harm and confusion for everyday consumers as well. The lower court's decision subjugates retailer competition to copyright owner price controls, resulting in fewer goods offered at retail, in fewer retail outlets, and at higher prices. Moreover, the decision below mandates a number of nonsensical outcomes, including the following, non-exhaustive list:

- Imported copies of copyrighted material – be it a British version of a Harry Potter book imported by an individual consumer under the

§602(a)(2) "suitcase exemption,"[9] a Picasso fine art print purchased from a foreign art dealer, or a foreign-made classical compact disc – cannot lawfully be resold, loaned, or even given away by the purchaser without committing copyright infringement.

- Libraries are unable to lend foreign-language texts made abroad.
- Movie rental businesses such as Netflix and Blockbuster and used-DVD and -CD resale shops, whose existence depends on the first-sale doctrine, can be shut down merely by shifting disc duplication to Mexico or Canada.
- It is impossible to rent or resell a foreign-produced automobile whose on-board computer systems are loaded with control software covered by a United States copyright registration.

This Court's review is necessary because no copyright or public policy would be served by the potential losses of jobs and tax revenue, or the manifest disadvantages to consumer and commercial interests, that flow from the Ninth Circuit's opinion.

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[9] Congress exempted from infringement under 17 U.S.C. § 602(a)(2) the "importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage."

III. THE ISSUE IS READY FOR THIS COURT'S REVIEW

A. Though no other court of appeals has addressed the precise issue raised here, the Ninth Circuit's opinion is in conflict with the reasoning of the Third Circuit in *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988).[10] In *Sebastian*, the Third Circuit "confess[ed] some uneasiness with [a] construction of 'lawfully made'" that turned on the place of manufacturing "because it does not fit comfortably with the scheme of the Copyright Act." *Id.* at 1098 n.1. "When Congress considered the place of manufacturing to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern." *Id.* "Furthermore," the Court noted, "it is trademark law that emphasis the source of origin." *Id.* "[C]opyright law focuses instead on originality of authorship [and] [t]he Supreme Court has cautioned against applying doctrine formulated in one area to the other." *Id.* *See also Red Baron-Franklin Park, Inc.* v. *Taito Corp.*, 1989 Copyright L. Dec. (CCH) ¶ 26,352 (E.D. Va. 1988) ("This court finds it difficult to accept that Congress would have given foreign corporations greater protection under the copyright laws than it has provided to domestic copyright holders."), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990) .

Though the facts of *Sebastian* involved a "round-trip" importation, and that court "specifically d[id]

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[10] It was a conflict between *Sebastian* and the Ninth Circuit's decision in *L'Anza Research Int'l, Inc.* v. *Quality King Distribs., Inc.*, 98 F.3d 1109 (9th Cir. 1996), that gave rise to this Court's *Quality King* decision. See *Quality King*, 523 U.S. at 140.

not pass upon" the phrase "lawfully made under this title," 847 F.2d at 1098, the prevailing view is that "[t]he Third Circuit upheld the first sale doctrine using language that could also apply to sale and manufacture abroad of copyrighted goods and their subsequent importation into the United States. In *dictum*, if not in holding, *Sebastian* therefore calls into question" the "continued vitality" of the interpretation relied on by the court of appeals here. 2 NIMMER § 8.12[B][6][a], at 8-172 n.111.24.

B. Though this Court in *Quality King* adopted the Third Circuit's reasoning in *Sebastian*, the views of commentators and the erroneous and unreasoned departures from *Quality King*'s reasoning in the lower courts suggest that this Court needs to do more to reiterate its prior reasoning and clarify the interaction between § 109(a) and § 602(a). In particular, there is considerable doubt that there is any continuing validity to the extraterritoriality concerns raised in *Scorpio* and cited in *BMG Music*. Indeed, because this "Court [did] not even cite to *Scorpio* or most other cases in the field, [and because] the opinion does [not] even grapple with the basic issues that *Scorpio* poses," one prominent treatise has commented that "a unanimous Supreme Court opinion has now addressed the copyright gray market, without leaving any clear guidance as to what the status is of pedestrian gray market goods manufactured abroad and sought to be imported into the United States." 2 NIMMER § 8.12[B][6][c], at 8-178.3 n.111.83. *See also* William W. Fisher III, *When Should We Permit Differential Pricing Of Information?*, 55 UCLA L. REV. 1, 38 (2007) (noting that whether the first-sale rule applies to products manufactured and sold abroad is "subject to some uncertainty or dispute . . . [and that the governing rule] has not yet been resolved").

This perceived lack of clarity might be tolerable, were it the case that lower courts were rigorously examining § 109(a) and vigorously debating its meaning. But that is simply not the case. Despite this Court's instruction to "[r]ead literally" the "unambiguous[]" text of the statute, *Quality King*, 523 U.S. at 145, most lower courts have been more concerned with parsing this and other courts' opinions than with parsing the words of the operative statutory text.[11] A number of lower courts have concluded that *Quality King* itself held that copies made abroad are *not* subject to the first-sale doctrine;[12] even Jus-

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[11] *See, e.g.*, , *Microsoft Corp.* v. *Cietdirect.com LLC*, No. 08-60668-CIV, 2008 WL 3162535 at *4 (S.D. Fla. Aug. 5, 2008) (following *Scorpio* because, "[a]s Justice Ginsburg recognized in her concurrence, the *Quality King* Court did not 'resolve cases in which the allegedly infringing imports were manufactured abroad'"); *UMG Recordings, Inc.* v. *Norwalk Distribs., Inc.*, No. SACV-02-1188, 2003 WL 22722410, at *3 *4 (C.D. Cal. Mar. 13, 2003) (parsing the language of *Quality King* to determine its scope but nowhere even mentioning the operative statutory language); *Lingo Corp.* v. *Topix, Inc.*, No. 01-CIV-2863, 2003 WL 223454, at *4 (S.D.N.Y. Jan. 31, 2003) (citing Ninth Circuit precedent for the proposition that the first-sale doctrine does not apply to goods made abroad, with no discussion of the Copyright Act itself).

[12] *See, e.g.*, *Pearson Educ., Inc.* v. *Liao*, No. 07-CIV-2423, 2008 WL 2073491, at *3 (S.D.N.Y. May 13, 2008) ("because a first sale defense only applies to the sale of copies that are 'lawfully made under this title,' the resale in the United States of copies manufactured outside the United States is not protected under the terms of the statute"); *Swatch SA* v. *New City, Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006) (asserting that in *Quality King* this court "expressly recognized" that the first-sale doctrine does not apply to goods manufactured abroad); *U2 Home Entm't, Inc.* v. *Lai Ying Music & Video Trading, Inc.*, No. 04-CIV-1233, 2005 WL 1231645, at *4 (S.D.N.Y. May 25, 2005) (citing *Quality King* for the proposition that "the importation of

tice Ginsburg did not go that far, believing the issue simply to be unresolved. The decision below has already exacerbated this problem, as recent court decisions have begun to substitute a citation to *Omega* for any reasoned exploration of the statute at all.[13] Review by this Court is therefore necessary to return lower courts to the task of interpreting the Copyright Act, as opposed to the words of prior decisions.

C. Nor is there any reasonable expectation that the Ninth Circuit will limit the reach of its holding in future cases without action by this Court. Indeed, this case demonstrates quite the opposite. *BMG Music*, the case on which the opinion below chiefly relies, was the subject of "widespread criticism" from the day it was decided. *Parfums Givenchy* v. *Drug Emporium*, 38 F.3d 477, 482 n.8 (9th Cir. 1994). Another panel of the Ninth Circuit went so far as to express concern that, applied literally, *BMG Music* would lead to precisely the "absurd and unintended results" just described, including giving "foreign manufactured goods . . . greater copyright protection than goods manufactured in the United States." *Id.* "[S]uch a result," the court concluded, "would be un-

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[Footnote continued from previous page]

copies into the United States of a work manufactured in a foreign country can form the basis for a copyright infringement claim by an exclusive licensed U.S. distributor without regard to the first sale doctrine").

[13] *See, e.g.*, *Microsoft Corp.* v. *Big Boy Distrib. LLC*, 589 F. Supp. 2d 1308, 1317 (S.D. Fla. 2008) (citing *Omega* and concluding that "the first sale doctrine protects only resales of works lawfully made 'under this title,' a phrase which is generally interpreted to mean works legally made *in the United States*") (emphasis in original); *Microsoft Corp.* v. *Intrax Group, Inc.*, No. C-07-1840, 2008 WL 4500703, at *3 (N.D. Cal. Oct. 6, 2008) (citing *Omega* without any discussion of the issue).

tenable, and . . . nothing in the legislative history or text of § 602 supports such an interpretation." *Id.* *See also* 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 7.6.1, at 142 (3d ed. 2007) (noting that the result of *Scorpio*, upon which *BMG Music* rests, "contradicts the policy behind section 109(a) and the terms of section 602(a)").

Rather than simply returning to the text of the Copyright Act, however, the Ninth Circuit's putative solution has been to stray even further from the statute by "creat[ing] an exception to *BMG Music*, . . . [whereby] § 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs [t]here." App., *infra*, 8a-9a (emphasis added) (citing *Drug Emporium*, 38 F.3d at 481). This exception has quelled some of the policy critiques of *BMG Music*, but it has completely unhinged analysis from the statute, as evidenced by the decision below. The words "lawfully made under this title" quite clearly do not mean "manufactured in the United States, and also manufactured abroad, but only in instances where the copyright holder sells into the United States." In *Quality King*, this Court bluntly stated that "whether or not we think [a particular rule] would be wise policy . . . is not a matter that is relevant to our duty to interpret the text of the Copyright Act." 523 U.S. at 153. *BMG Music* and its progeny, however, including the case below, take exactly the opposite approach. By reviewing the decision below, this Court can both put focus back on the text of the statute and resolve the problems associated with Ninth Circuit's departure from it.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL,
ENGLERT, ORSECK,
UNTEREINER & SAUBER
LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

May 2009

APPENDIX A

FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

OMEGA S.A.,	Nos. 07-55368
Plaintiff-Appellant,	07-56206
v.	D.C. No.
COSTCO WHOLESALE CORPORATION,	CV-04-05443-TJH
Defendant-Appellee.	OPINION

Appeal from the United States District Court
for the Central District of California
Terry J. Hatter, District Judge, Presiding

Argued and Submitted
July 15, 2008—Pasadena, California

Filed September 3, 2008

Before: Barry G. Silverman, Johnnie B. Rawlinson,
and
Milan D. Smith, Jr., Circuit Judges.

Opinion by Judge Milan D. Smith, Jr.

COUNSEL

David S. Richman and Kenneth E. Johnson, Theodora Oringher Miller & Richman, P.C., Los Angeles, California; Barry R. Levy, Horvitz & Levy LLP, Encino, California, for the plaintiff-appellant.

Aaron J. Moss and Norman H. Levine, Greenberg Glusker Fields Claman & Machtinger LLP, Los Angeles, California, for the defendant-appellee.

W. Stephen Cannon and Seth D. Greenstein, Constantine Cannon LLP, Washington, D.C., for the amici curiae.

OPINION

MILAN D. SMITH, JR., Circuit Judge:

In this opinion, we address whether the Supreme Court's decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), requires us to overrule our precedents that allow a defendant in a copyright infringement action to claim the "first sale doctrine" of 17 U.S.C. § 109(a) as a defense only where the disputed copies of a copyrighted work were either made or previously sold in the United States with the authority of the copyright owner. Plaintiff-Appellant Omega, S.A. (Omega) filed claims for infringing distribution and importation under 17 U.S.C. §§ 106(3) and 602(a) in response to Defendant-Appellee Costco Wholesale Corporation's (Costco) unauthorized sale of authentic, imported Omega watches bearing a design registered at the U.S. Copyright Office. The district court granted summary judgment to Costco on the basis of

the first sale doctrine, and awarded attorney's fees. We have jurisdiction pursuant to 28 U.S.C. § 1291, and we reverse.

This circuit has construed 17 U.S.C. § 109(a) to provide no defense to an infringement action under §§ 106(3) and 602(a) that involves (1) foreign-made, nonpiratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner's authority. We hold that the first portion of this construction is not "clearly irreconcilable" with *Quality King*, and that it remains the law of this circuit. *See Miller v. Gammie*, 335 F.3d 889, 900 (9th Cir. 2003) (en banc). Because there is no genuine dispute that Omega made the copies of the disputed design in Switzerland, and that Costco sold them in the United States without Omega's authority, the first sale doctrine is unavailable as a defense to Omega's claims.

I. FACTUAL AND PROCEDURAL BACKGROUND

The facts are not disputed. Omega manufactures watches in Switzerland and sells them globally through a network of authorized distributors and retailers. Engraved on the underside of the watches is a U.S.-copyrighted "Omega Globe Design."

Costco obtained watches bearing the copyrighted design from the "gray market"[1] in the following

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[1] "'Gray-market' goods, or 'parallel imports,' are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported into the United States by third parties, thereby bypassing the authorized U.S. distribution channels." *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 n. 6 (9th Cir. 1994). Retailers are able to sell these prod-

manner: Omega first sold the watches to authorized distributors overseas. Unidentified third parties eventually purchased the watches and sold them to ENE Limited, a New York company, which in turn sold them to Costco. Costco then sold the watches to consumers in California. Although Omega authorized the initial foreign sale of the watches, it did not authorize their importation into the United States or the sales made by Costco.

Omega filed a lawsuit alleging that Costco's acquisition and sale of the watches constitute copyright infringement under 17 U.S.C. §§ 106(3) and 602(a), and subsequently moved for summary judgment. Costco filed a cross-motion on the basis of 17 U.S.C. § 109(a), arguing that, under the first sale doctrine, Omega's initial foreign sale of the watches precludes claims of infringing distribution and importation in connection with the subsequent, unauthorized sales. The district court ruled without explanation in favor of Costco on both motions. The court also awarded $373,003.80 in attorney's fees to Costco under 17 U.S.C. § 505. This appeal followed.

II. STANDARD OF REVIEW

We review de novo a district court's grant of summary judgment under Federal Rule of Civil Procedure 56. *Buono v. Norton*, 371 F.3d 543, 545 (9th Cir. 2004). Rule 56(c) provides that summary judgment is warranted when the "pleadings, the discovery and disclosure materials on file, and any affidavits show that there is no genuine issue as to any material fact and that the movant is entitled to

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[Footnote continued from previous page]

ucts at a discount because the gray market arbitrages international discrepancies in manufacturers' pricing systems.

judgment as a matter of law." We review a district court's award of attorney's fees under 17 U.S.C. § 505 for an abuse of discretion. *Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1197 (9th Cir. 2001).

III. DISCUSSION

The viability of Omega's infringement claims hinges on the relationship among three sections of the Copyright Act of 1976: 17 U.S.C. §§ 106(3), 109(a), and 602(a). In relevant part, § 602(a) reads:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106, actionable under section 501.[2]

Section 106(3) states:

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights . . . to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

Finally, § 109(a) provides:

> Notwithstanding the provisions of section 106(3), the owner of a particular

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[2] Section 501(a) provides: "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122, . . . or who imports copies . . . into the United States in violation of section 602, is an infringer of the copyright. . . ."

> copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . . .

This last section codifies the so-called "first sale doctrine," which holds that "[o]nce [a] copyright owner consents to the sale of particular copies of his work, he may not thereafter exercise the distribution right with respect to those copies." 2-8 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.12(B)(1), at 8-156 (1978 ed.).

The text of the Copyright Act establishes by syllogism that the first sale doctrine of § 109(a) limits § 602(a): First, given that § 106(3) is "subject to sections 107 through 122" and § 109 falls within the designated portion of the Code, § 109(a) limits the exclusive distribution right in § 106(3). Second, infringing importation under § 602(a) is merely a subcategory of "infringement of the exclusive right to distribute copies . . . under section 106," so conduct that does not violate § 106(3) cannot constitute infringement under § 602(a). Finally, because conduct covered by § 109(a) does not violate § 106(3), and because absent a violation of § 106(3) there cannot be infringement under § 602(a), conduct covered by § 109(a) does not violate § 602(a). In short, infringement does not occur under § 106(3) or § 602(a) where "the owner of a particular copy . . . lawfully made under this title" imports and sells that copy without the authority of the copyright owner. 17

U.S.C. § 109(a);[3] *see Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc.*, 523 U.S. 135, 144-45 (1998) (adopting this interpretation).

Omega concedes that § 109(a) generally limits §§ 106(3) and 602(a), but contends that § 109(a) does not apply in this case. Specifically, Omega argues that § 109(a) provides no defense to the infringement claims because, although the Omega Globe Design was copyrighted in the United States, the watches bearing the design were manufactured and first sold overseas. Omega claims that the copies of the design were not "lawfully made under [Title 17]" in these circumstances. 17 U.S.C. § 109(a). Costco responds that although Omega's position is correct under *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996), the Supreme Court effectively overruled those cases in *Quality King*, 523 U.S. 135. For the reasons set forth below, we hold that *Quality King* did not invalidate our general rule that § 109(a) can provide a defense against §§ 106(3) and 602(a) claims only insofar as the claims involve domestically made copies of U.S.-copyrighted works. Because we also conclude that the exception to that rule does not apply, § 109(a) provides no defense in this case.

A. Current Rule in the Circuit

Omega's position was clearly correct under pre-*Quality King* Ninth Circuit precedent. This court has twice held on indistinguishable facts that

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[3] Other parts of § 109 qualify the first sale doctrine of § 109(a), *see generally* 17 U.S.C. § 109, but the parties do not argue that any of those limiting provisions apply.

§ 109(a) provides no defense against a claim under § 602(a). In *BMG Music*, the defendant purchased copies of the plaintiffs' U.S.-copyrighted, foreign-manufactured sound recordings, imported them into the United States without the plaintiffs' authorization, and then sold them to the public. 952 F.2d at 319. Following *CBS v. Scorpio Music Distributors*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984), we held that § 109(a) provided no defense against a claim under § 602(a) in the circumstances because the phrase "lawfully made under this title" in § 109(a) "grants first sale protection only to copies legally made and sold in the United States," and the copies at issue were made and first sold abroad. 952 F.2d at 319. The rationale for this interpretation was twofold: First, a contrary interpretation would impermissibly extend the Copyright Act extraterritorially. *Id.* (citing *Scorpio*, 569 F. Supp. at 49). Second, the application of § 109(a) after foreign sales would " 'render § 602 virtually meaningless'" as a tool against the unauthorized importation of nonpiratical copies because importation is almost always preceded by at least one lawful foreign sale that will have exhausted the distribution right on which § 602(a) is premised. *Id.* at 319-20 (quoting *Scorpio*, 569 F. Supp. at 49).

Drug Emporium, 38 F.3d 477, followed *BMG Music* by holding on similar material facts that § 109(a) provided no defense. However, we criticized the prior interpretation of § 109(a)'s key phrase—"lawfully made under this title." By permitting the first sale defense only against claims involving copies that are "legally made and sold in the United States," *BMG Music* appeared to give greater copyright protection to foreign-made copies than to their domestically made counterparts. *See* 38 F.3d at 482

n. 8. We found that "such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation." *Id.*; *see also* 2 Paul Goldstein, Goldstein on Copyright § 7.6.1, at 142 (3d ed. 2007) (criticizing the approach in *BMG Music* and *Scorpio*). We therefore created an exception to *BMG Music*, concluding that § 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here. *Drug Emporium*, 38 F.3d at 481.

Denbicare, which involved copies made in Hong Kong and voluntarily sold by the U.S. copyright owner within the United States, applied the exception created by *Drug Emporium*. *Denbicare*, 84 F.3d at 1145-46. The copyright owner sued under §§ 106(3) and 602(a) after the defendant purchased the copies and and resold them without permission, but we rejected the claims: The defendant was not liable for infringing importation under § 602(a) because the disputed copies were imported by third parties prior to the defendant's purchase and resale. *Id.* at 1149. The defendant also was not liable under § 106(3) because, in light of § 109(a) and *Drug Emporium*, the copyright owner's voluntary sale of the copies within the United States exhausted the exclusive right of distribution. *Id.* at 1149-50.

Under these cases, Costco would not be entitled to summary judgment on the basis of § 109(a). The statute would not apply because Omega made copies of the Omega Globe Design in Switzerland and Costco sold the copies without Omega's authority in the United States. The district court's unexplained grant of summary judgment on the basis of § 109(a)

was at odds with *BMG Music*, *Drug Emporium*, and *Denbicare*.[4]

B. The Impact of *Quality King*

We next address the degree to which the Supreme Court's decision in *Quality King* invalidates this circuit's construction of § 109(a). This panel may overrule *BMG Music*, *Drug Emporium*, and *Denbicare* if *Quality King* "undercut[s] the theory or reasoning underlying the prior circuit precedent in such a way that the cases are clearly irreconcilable." *Miller*, 335 F.3d at 900.

1.

It is clear that *Quality King* did not directly overrule *BMG Music*, *Drug Emporium*, and *Denbicare*. *Quality King* involved "round trip" importation: a product with a U.S.-copyrighted label was manufactured inside the United States, exported to an authorized foreign distributor, sold to unidentified third parties overseas, shipped back into the United States without the copyright owner's permission, and then sold in California by unauthorized retailers. 523 U.S. at 138-39. The Court held that § 109(a) can provide a defense to an action under § 602(a) in this context. *Id.* at 144-52. However, because the facts involved only domestically manufactured copies, the

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[4] *Denbicare*'s rejection of a § 602(a) claim due to the defendant's lack of involvement in importation suggests that Omega's claim under § 602(a) is similarly unmeritorious because, like the defendant in *Denbicare*, Costco did not import the disputed copies. *See* 84 F.3d at 1149. However, Costco waived this argument by not raising it in its opening brief. *See Greenwood v. FAA*, 28 F.3d 971, 977 (9th Cir. 1994) ("We review only issues which are argued specifically and distinctly in a party's opening brief."). In any event, we must still decide whether § 109(a) provides a defense against Omega's claim under § 106(3).

Court did not address the effect of § 109(a) on claims involving unauthorized importation of copies made abroad. *See id.* at 154 (Ginsburg, J., concurring) ("[W]e do not today resolve cases in which the allegedly infringing imports were manufactured abroad."). Moreover, the Court never discussed the scope of § 109(a) or defined what "lawfully made under this title" means.

2.

We next consider whether the reasoning[5] of *Quality King* is clearly irreconcilable with our general rule that § 109(a) is limited to copies "legally made . . . in the United States." *BMG Music*, 952 F.2d at 319; *see also Denbicare*, 84 F.3d at 1150. The basis for that rule was our concern that applying § 109(a) to foreign-made copies would violate the presumption against the extraterritorial application of U.S. law. *BMG Music*, 952 F.2d at 319 (citing *Scorpio*, 569 F. Supp. at 49); *cf. Subafilms, Ltd. v. MGM-Pathe Commc'ns Co.*, 24 F.3d 1088, 1093-98 (9th Cir. 1994) (en banc) (describing the "undisputed axiom" that United States copyright law has no extraterritorial application). *Quality King* dismissed a similar concern that the triggering of § 109(a) by *foreign sales* would require an invalid extraterritorial application of the Copyright Act, explaining that merely recognizing the occurrence of such sales "does not require the extraterritorial application of the Act any more than § 602(a)'s 'acquired abroad' language does." 523 U.S. at 145 n.14. Costco contends that

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[5] "[L]ower courts [are] bound not only by the holdings of higher courts' decisions but also by their 'mode of analysis.'" *Miller*, 335 F.3d at 900 (quoting Antonin Scalia, *The Rule of Law as a Law of Rules*, 56 U. Chi. L. Rev. 1175, 1177 (1989)).

this explanation is irreconcilable with our interpretation of § 109(a) in *BMG Music*.

We reject Costco's contention and hold that the Supreme Court's brief discussion on extraterritoriality is not "clearly irreconcilable" with our general limitation of § 109(a) to copies that are lawfully made in the United States. *Miller*, 335 F.3d at 900. The common understanding of the presumption against extraterritoriality is that a U.S. statute "appl[ies] only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute." Restatement (Second) of Foreign Relations Law of the United States § 38 (1965); *see also EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991). Recognizing the importance of avoiding international conflicts of law in the area of intellectual property, however, we have applied a more robust version of this presumption to the Copyright Act, holding that the Act presumptively does not apply to conduct that occurs abroad even when that conduct produces harmful effects within the United States. *See Subafilms, Ltd.*, 24 F.3d at 1096-98; *see also* William S. Dodge, *Understanding the Presumption Against Extraterritoriality*, 16 Berkeley J. Int'l L. 85, 101 (1998) (characterizing this circuit's approach under the Copyright Act as consistent with *American Banana Co. v. United Fruit Co.*, 213 U.S. 347, 356 (1909), *overruled on other grounds, Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 704-05 (1962), which described the presumption as a "general and almost universal rule. . . that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done").

Given this understanding of the presumption, the application of § 109(a) to foreign-made copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not. Under the latter application, the statute merely acknowledges the occurrence of a foreign event as a relevant fact. The former application would go much further. To characterize the making of copies overseas as "lawful[ ] . . . under [Title 17]" would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States, notwithstanding the absence of a clear expression of congressional intent in favor of extraterritoriality. *See* 17 U.S.C. § 109(a); *see also Subafilms, Ltd.*, 24 F.3d at 1096 ("There is no clear expression of congressional intent in either the 1976 Act or other relevant enactments to alter the preexisting extraterritoriality doctrine."). Specifically, it would mean that a copyright owner's foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application. This is precisely what we proscribed in *Subafilms*, *see* 24 F.3d at 1098, and *Quality King* provides no basis for rejecting our approach.

Other significant parts of *Quality King*'s analysis are also consistent with *BMG Music*'s limitation of § 109(a) to domestically made copies. The Court found that copies of a work copyrighted under Title 17 are not necessarily "lawfully made under [Title 17]" even when made by the owner of the copyright: The category of copies covered by § 602(a), it was explained, encompasses "copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." 523 U.S. at 147. Because § 602(a) extends to such

copies, but on its terms permits an infringement action only by the "owner of copyright under [Title 17]," copies of a work can be lawfully made "under the law of some other country," rather than "under [Title 17]," even when the copies are protected by a U.S. copyright. In short, copies covered by the phrase "lawfully made under [Title 17]" in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright. Something more is required. To us, that "something" is the making of the copies *within the United States*, where the Copyright Act applies. *See* 2-8 Nimmer on Copyright § 8.12(B)(6)(c), at 8-178.4(6)-(7).

We also read one of the Court's illustrations to be consistent with this understanding. The Court stated that given

> a publisher of [a] U.S. edition [of a work] and a publisher of [a] British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, *presumably only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a).* The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a).

523 U.S. at 148 (emphasis added and footnote omitted). Assuming the British edition was made outside the United States,[6] this illustration suggests that "lawfully made under this title" refers exclusively to copies of U.S.-copyrighted works that are made domestically. Were it otherwise, the copies made by the British publisher would also fall within the scope of § 109(a). *See* 2-8 Nimmer on Copyright § 8.12(B)(6)(c), at 8-178.4(7).

Finally, in the decision's only direct language on the issue, Justice Ginsburg's concurrence cited a copyright treatise for the proposition that "lawfully made under this title" means "lawfully made in the United States." 523 U.S. at 154 (citing W. Patry, Copyright Law and Practice 166-70 (1997 Supp.)). The majority opinion did not dispute this interpretation, which aligns closely with the one adopted by our circuit. *See BMG Music*, 952 F.2d at 319.

Costco contends that *BMG Music*'s limitation of § 109(a) to domestically made copies is inconsistent with the plain language of the statute and its legislative history. This criticism has been made before, including by this court. *See, e.g., Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1386-87 (C.D. Cal. 1993), *aff'd sub nom. Drug Emporium*, 38 F.3d at 482 n.8. Perhaps most compelling is the objection that *BMG Music* would provide substantially greater copyright protection to foreign-made copies of U.S.-copyrighted works. A U.S. copyright owner, for example, would be unable to exercise

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[6] The illustration offers no specific justification for making this assumption over any other regarding the site of manufacture, but *Quality King* cannot be "clearly irreconcilable" with our precedent even if the decision merely *permits* assumptions that are consistent with that precedent. *Miller*, 335 F.3d at 900.

distribution rights after one lawful, domestic sale of a watch lawfully made in South Dakota, but, without the limits imposed by § 109(a), the same owner could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland. The difference would likely encourage U.S. copyright owners to outsource the manufacturing of copies of their work overseas. *Drug Emporium* and *Denbicare*, however, resolved this problem by clarifying that parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred. *See Drug Emporium*, 38 F.3d at 481; *Denbicare*, 84 F.3d at 1150. Insofar as Costco contends that § 109(a) should apply to foreign-made copies even in the absence of a lawful domestic sale, the surviving rule from *BMG Music* requires otherwise. *See* 952 F.2d at 319.

In summary, our general rule that § 109(a) refers "only to copies legally made . . . in the United States," *id.*, is not clearly irreconcilable with *Quality King*, and, therefore, remains binding precedent. Under this rule, the first sale doctrine is unavailable as a defense to the claims under §§ 106(3) and 602(a) because there is no genuine dispute that Omega manufactured the watches bearing the Omega Globe Design in Switzerland. *Id.*; Fed. R. Civ. P. 56(c); *see also Swatch S.A. v. New City, Inc.*, 454 F. Supp. 2d 1245, 1253-54 (S.D. Fla. 2006) (concluding that *Quality King* is consistent with the interpretation that "lawfully made under this title" means "legally made . . . in the United States"); 2 Goldstein on Copyright § 7.6.1, at 143-44 (concluding that *Quality King* "indicates an intention not to disturb lower court holdings that the first sale defense is unavailable to im-

porters who acquire ownership of gray market goods made abroad").

3.

We need not decide whether *Drug Emporium*'s and *Denbicare*'s exception to the rule in *BMG Music* also survives *Quality King*. There is no genuine dispute that the copies of the Omega Globe Design were sold in the United States without Omega's authority. The exception, therefore, does not apply in this case. *See Denbicare*, 84 F.3d at 1145-46 ("[Section] 109 applies to copies made abroad only if the copies have been sold in the United States by the copyright owner or with its authority."). Because the exception does not apply, the question of its continuing viability cannot affect our conclusion that § 109(a) provides no defense to Omega's claims.

C. Attorney's fees under 17 U.S.C. § 505

The final issue is whether the district court abused its discretion in awarding attorney's fees to Costco. The Copyright Act provides for an "award [of] a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505. In deciding whether to award fees under this statute, a district court should consider "the degree of success obtained; frivolousness; motivation; objective unreasonableness (both in the factual and legal arguments in the case); and the need in particular circumstances to advance considerations of compensation and deterrence." *Columbia Pictures Television, Inc.*, 259 F.3d at 1197.

The district court's award of $373,003.80 in attorney's fees to Costco was an abuse of discretion because neither party has prevailed in this litigation to this point.

REVERSED AND REMANDED.

APPENDIX B

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

OMEGA S.A., *et al.*, CV 04-05443 TJH (RCx)

Plaintiffs,

v. Order and Judgment

COSTCO WHOLESALE CORPORATION,

Defendant.

The Court has considered Plaintiff's motion for summary judgment, Plaintiff's motions for leave to file documents under seal, Defendant's motion for summary judgment or, in the alternative, for partial summary judgment, and Defendant's motions for leave to file documents under seal, together with the moving and opposing papers.

It is Ordered that the motions for leave to file documents under seal be, and hereby are, Granted.

It is further Ordered that Plaintiff's motion for summary judgment be, and hereby is, Denied.

It is further Ordered that Defendant's motion for summary judgment be, and hereby is, Granted.

It is further Ordered, Adjudged and Decreed that judgment be, and hereby is, *Entered* in favor of Defendant Costco Wholesale Corporation and against Plaintiff Omega S.A.

It is further Ordered, Adjudged and Decreed that Plaintiff shall take nothing.

It is further Ordered that all other pending motions be, and hereby are, Denied as moot.

It is further Ordered that the preliminary injunction be, and hereby is, Vacated.

Date: February 6, 2007

/s/
Terry J. Hatter, Jr.
Senior United States District Judge

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

OMEGA S.A.,

Plaintiff – Appellant,

v.

COSTCO WHOLESALE CORPORATION,

Defendant – Appellee.

No. 07-55368

D.C. No. CV-04-05443-TJH

Central District of California, Los Angeles

OMEGA S.A.,

Plaintiff – Appellant,

v.

COSTCO WHOLESALE CORPORATION,

Defendant – Appellee.

No. 07-56206

D.C. No. CV-04-05443-TJH

Central District of California, Los Angeles

Filed February 17, 2009

Before: SILVERMAN, RAWLINSON, and M. SMITH, Circuit Judges.

The panel has unanimously voted to deny the petition for rehearing en banc.

A judge of the court requested a vote on whether to rehear the case en banc, but the request failed to receive a majority of the votes of the nonrecused active judges in favor of en banc rehearing.

The petition for rehearing en banc is DENIED.

OPPOSITION BRIEF

Supreme Court, U.S.
FILED
JUL 17 2009
OFFICE OF THE CLERK

No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA S.A.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF FOR RESPONDENT IN OPPOSITION

MATTHEW C. WAGNER
JESS M. COLLEN
THOMAS P. GULICK
COLLEN IP
The Holyoke-Manhattan Building
80 South Highland Avenue
Ossining, New York 10562
(914) 941-5668

MICHAEL K. KELLOGG
Counsel of Record
AARON M. PANNER
KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C.
1615 M Street, N.W.
Suite 400
Washington, D.C. 20036
(202) 326-7900

Counsel for Respondent

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QUESTION PRESENTED

Whether § 602(a) of the Copyright Act of 1976, which provides that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106," 17 U.S.C. § 602(a), applies to copies manufactured abroad by the owner of a copyright.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6 of the Rules of this Court, respondent Omega S.A. states the following:

Omega S.A. is a wholly owned subsidiary of a publicly held Swiss corporation, The Swatch Group, Ltd. The Swatch Group, Ltd. is the parent company of Omega S.A.

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INTRODUCTION

Section 602(a) of the Copyright Act of 1976 provides that "[i]mportation into the United States, without the authority of the owner of the copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a). The law has been settled that § 602(a) applies to prevent the importation, without the authority of the U.S. copyright holder, of genuine copies made and sold overseas.

In *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998), this Court determined that § 109(a) – which provides that "the owner of a particular copy . . . *lawfully made under this title* . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy," 17 U.S.C. § 109(a) (emphasis added) – allows the owner of a copy lawfully made *in the United States* to re-import that copy. In reaching that determination, this Court rejected the argument that its decision would render § 602(a) "superfluous," noting that "§ 602(a) applies to a category of copies that are neither piratical [*i.e.*, counterfeit] nor 'lawfully made under this title.'" *Quality King*, 523 U.S. at 146-47. "That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147.

In this case, the Ninth Circuit held that copies made abroad by the holder of a U.S. copyright for sale abroad are not "lawfully made under this title" and therefore not subject to the first-sale defense of § 109(a). That decision – which applies the law as it already has stood for at least a quarter century –

does not merit this Court's review. There is no division of authority on the question presented – the Ninth Circuit is the only court of appeals to have ruled on this issue, and the law in the Ninth Circuit is consistent with unanimous federal district court authority across the circuits. Furthermore, petitioner concedes that there are some circumstances – for example, where a foreign manufacturer receives a license only under a *foreign* copyright from a U.S. copyright holder – where genuine, foreign-manufactured goods are not "lawfully made under this title." *See* Pet. 14, 17. Petitioner argues that this case is different only because the goods were manufactured *by the owner* of the U.S. copyright. Therefore, if the Court were to adopt petitioner's suggested loophole in the coverage of § 602(a), that loophole could be easily plugged by ensuring that the same legal entity did not both hold the U.S. copyright and manufacture the goods. The question is thus of little importance, because its resolution will not meaningfully affect future conduct.

In any event, the Ninth Circuit's decision is correct. It gives effect to the plain language of § 109 – which provides a defense for copies "lawfully made *under this title*," not for copies made under the law of a foreign jurisdiction. It correctly reflects the principle that the Copyright Act does not apply extraterritorially; making copies in foreign countries does not implicate any of the copyright holder's exclusive rights under the Copyright Act. The Ninth Circuit's decision is fully consistent with *Quality King*, as the leading treatises recognize. And the decision gives effect to the intent of Congress to give copyright owners enforcement rights against unauthorized parallel imports, as reflected in the statute and the legislative history.

STATEMENT OF THE CASE

1. Respondent Omega, founded in 1848, makes watches in Switzerland. *See* C.A. E.R. 25, 91. It owns a registered U.S. copyright on an original artwork, the Omega Globe Design, which is laser-engraved into Omega watches at the time of their manufacture at Omega's facility in Switzerland.

Petitioner Costco Wholesale Corporation is a Fortune 50 corporation, with 2008 sales of $71 billion. In 2003, Costco approached Omega to discuss Costco's interest in carrying OMEGA brand watches. *See id.* at 68 (¶¶ 20-21), 87-89. Costco threatened that, if Omega did not agree to make watches available to Costco through authorized channels on terms acceptable to Costco, it would obtain the watches elsewhere. *See id.* at 87-89.

When Omega did not agree to Costco's terms, Costco arranged to obtain OMEGA brand watches bearing the Omega Globe Design from a source that Costco knew was obtaining the watches outside of the United States and importing them without Omega's authorization. *See id.* at 14 (¶ 7), 21-22, 53-54. Costco then put the watches on sale in its retail stores at a price well below the prices charged by retailers selling watches that were imported with Omega's authorization. *See id.* at 111.[1]

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[1] Omega obtained two watches from Costco retail stores. *See* C.A. E.R. 42-43. Investigation revealed that the watches had been sold overseas under distribution agreements that restricted resale to specific geographic territories outside the United States. *See id.* at 111; Decl. of Sukru Cital ¶ 3 & Exh. A (attached to Pl.'s Mot. for Summ. J. (Dec. 5, 2006)); Decl. of David Polutrak ¶ 3 & Exh. A (attached to Pl.'s Mot. for Summ. J. (Dec. 5, 2006)).

2. Omega brought a one-count copyright infringement action under §§ 106 and 602 of the Copyright Act, alleging that Costco had distributed copies of Omega's copyright-protected works without Omega's authorization or consent. *See* C.A. E.R. 135-37 (¶¶ 27-40). In its answer, Costco alleged that Omega's claim was barred by the first-sale doctrine, citing § 109 of the Act. *See* Answer ¶ 44 (Aug. 30, 2004). The district court initially issued a preliminary injunction against Costco. Later, however, the district court granted Costco's summary judgment motion under § 109 and vacated the preliminary injunction. *See* Pet. App. 18a-19a. The district court did not explain its decision. *See id.*

3. The Ninth Circuit reversed. It noted that, under circuit precedent, § 109 of the Copyright Act "provide[s] no defense to an infringement action under §§ 106(3) and 602(a) that involves (1) foreign-made, nonpiratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner's authority." Pet. App. 3a; *see id.* at 7a-10a. The court then explained that *Quality King* neither overruled those precedents nor "undercut[] the theory or reasoning underlying the prior circuit precedent in such a way that the cases are clearly irreconcilable." *Id.* at 10a (internal quotation marks omitted).

The Ninth Circuit held, first, that *Quality King* did not overrule prior precedent because that case "involved 'round trip' importation" – *i.e.*, a copy made inside the United States, sold from the United States to a third party overseas, and then shipped back into the United States. *Id.* "The Court held that § 109(a) can provide a defense to an action under § 602(a) in this context . . . [but], because the facts involved only

domestically manufactured copies, the Court did not address the effect of § 109(a) on claims involving unauthorized importation of copies made abroad." *Id.* at 10a-11a.

The Ninth Circuit next explained that the reasoning in *Quality King* did not undermine circuit precedent either. Those earlier Ninth Circuit decisions had recognized that to deem a copy that was made overseas as "lawfully made under this title," 17 U.S.C. § 109(a), "would violate the presumption against the extraterritorial application of U.S. law." Pet. App. 11a. *Quality King*, the court noted, had "dismissed a similar concern that the triggering of § 109(a) by *foreign sales* would require an invalid extraterritorial application of the Copyright Act, explaining that merely recognizing the occurrence of such sales 'does not require the extraterritorial application of the Act.'" *Id.* (quoting *Quality King*, 523 U.S. at 145 n.14). But "the application of § 109(a) to foreign-made copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not." *Id.* at 12a-13a. "To characterize the making of copies overseas as 'lawful[] . . . under [Title 17]' would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States. . . . Specifically, it would mean that a copyright owner's foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application." *Id.* at 13a (brackets and first ellipsis in original).

The Ninth Circuit observed that "significant parts of *Quality King*'s analysis are also consistent" with circuit precedent. *Id.* "The Court found that copies

of a work copyrighted under Title 17 are not necessarily 'lawfully made under [Title 17]' even when made by the owner of the copyright: The category of copies covered by § 602(a), it was explained, encompasses 'copies that were "lawfully made" not under the United States Copyright Act, but instead, under the law of some other country.'" *Id.* (quoting *Quality King*, 523 U.S. at 147) (alteration in original). "In short, copies covered by the phrase 'lawfully made under [Title 17]' in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright." *Id.* at 14a (alteration in original).

The Ninth Circuit cited Justice Ginsburg's concurring opinion in *Quality King*, which expressly recognized that the Court's opinion did not address copies made outside the United States. *See id.* at 15a.

4. Petitioner's petition for rehearing and rehearing en banc was denied.

REASONS FOR DENYING THE PETITION

Petitioner seeks this Court's review even though the Ninth Circuit applied an interpretation of the Copyright Act that has prevailed for 25 years, one that has generated no conflict among the courts of appeals and that creates no inconsistency between the decision below and any decision of this Court. The lower court decisions addressing the issue presented (other than the decision of the district court reversed below) are consistent with the Ninth Circuit's decision. Furthermore, the Ninth Circuit's decision is correct and fully consistent with the policies underlying the applicable provisions of the Copyright Act.

I. REVIEW IS UNWARRANTED BECAUSE THERE IS NO DIVISION OF AUTHORITY AND THE QUESTION PRESENTED IS OF LITTLE IMPORTANCE

A. There Is No Conflict of Authority

More than 10 years after this Court decided *Quality King*, no court has adopted petitioner's construction of the Copyright Act – as petitioner concedes. *See* Pet. 27-28. The Ninth Circuit is the only federal court of appeals to address the issue. Petitioner and respondent have identified district court opinions from three circuits (including two in the Ninth Circuit) addressing this issue after *Quality King* was decided. Each of them reached the same conclusion: that § 109(a) does not provide a defense to unauthorized importation of copyrighted works manufactured and sold outside the United States.[2] There is no division of authority.

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[2] *See Microsoft Corp. v. Big Boy Distribution LLC*, 589 F. Supp. 2d 1308, 1317 (S.D. Fla. 2008) ("[T]he first sale doctrine has no application to copyrighted works manufactured abroad because such works are not made 'under this title.'"); *Microsoft Corp. v. Intrax Group, Inc.*, No. C 07-1840 CW, 2008 WL 4500703, at *3 (N.D. Cal. Oct. 6, 2008); *Microsoft Corp. v. Cictdirect.com LLC*, No. 08-60668 CIV, 2008 WL 3162535, at *5 (S.D. Fla. Aug. 5, 2008); *Pearson Educ., Inc. v. Liao*, No. 07-Civ-2423 (SHS), 2008 WL 2073491, at *3 (S.D.N.Y. May 13, 2008) ("[B]ecause a first sale defense only applies to the sale of copies that are 'lawfully made under this title,' the resale in the United States of copies manufactured outside the United States is not protected under the terms of the statute.") (citation omitted); *Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006) ("The wristwatches at issue here were manufactured and first sold abroad. Therefore, the Court's opinion in *Quality King* does not protect Defendant from a claimed violation of § 602(a)."); *U2 Home Entm't, Inc. v. Lai Ying Music & Video Trading, Inc.*, No. 04 Civ. 1233 (DLC), 2005 WL 1231645, at *4 (S.D.N.Y. May

Nor does the decision below "conflict with the reasoning" of the Third Circuit's decision in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). Pet. 25. The Third Circuit specifically noted that its decision did *not* address "copies . . . produced abroad" and sold overseas. 847 F.2d at 1098. And it declined to disturb the decision in *CBS, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984) (table), which is consistent with the Ninth Circuit's interpretation. *See* 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[B][6](b), at 8-178.4 (rev. ed. 2009) ("The holding [of *Sebastian*] comports with *Scorpio*'s limitation on the first-sale doctrine to works 'lawfully made under this title,' *i.e.*, within the borders of the United States.").

Petitioner argues that the very uniformity of federal precedent is reason for the Court to intervene, faulting district courts for not "rigorously examining § 109(a) and vigorously debating its meaning." Pet. 27. But district courts before and after *Quality King* have carefully examined this issue when it has been presented. Given that the issue has arisen and been litigated periodically over 25 years, if the issue were subject to reasonable disagreement (which it is not, *see infra* pp. 13-24), there is no reason to doubt that a split in the circuits would eventually develop. But

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25, 2005), *aff'd in part, vacated in part on other grounds*, 245 F. App'x 28 (2d Cir. 2007); *UMG Recordings, Inc. v. Norwalk Distribs., Inc.*, No. SACV 02-1188, 2003 WL 22722410, at *3 *4 (C.D. Cal. Mar. 13, 2003); *Lingo Corp. v. Topix, Inc.*, No. 01 Civ. 2863 (RMB), 2003 WL 223454, at *4 (S.D.N.Y. Jan. 31, 2003); *cf. UMG Recordings, Inc. v. Disco Azteca Distribs., Inc.*, 446 F. Supp. 2d 1164, 1173 (E.D. Cal. 2006).

unless and until that happens, there is no reason for this Court to address the issue.

B. The Issue Presented Is Inconsequential

Section 602(a) was added to the Copyright Act in 1976; in 1983, the district court for the Eastern District of Pennsylvania decided *Scorpio*, which held that the first-sale defense of § 109(a) was not available in the case of goods manufactured and sold overseas. *See* 569 F. Supp. at 49. That rule has prevailed since that time. *See* 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1.2.a, at 7:141 (3d ed. 2007).

The claims of petitioner and its *amici* that the issue presented is of great importance are unsustainable in light of the fact that the ruling under review does not alter settled law as it has been widely understood for a quarter century. Petitioner and its supporting *amici* cite nothing to support the view that enforcement of § 602(a) to prohibit importation without authorization of goods made abroad by the holder of a U.S. copyright has had any "significant impact" (Pet. 20) on any sector of the economy.

Indeed, even if this Court were to grant review and reverse, that decision might complicate business planning for some U.S. copyright holders – which have relied on settled law in ordering their affairs – but it would not have any significant economic impact. This Court made clear in *Quality King* that a U.S. copyright holder can authorize a foreign manufacturer to make copies for sale in foreign markets *under a foreign copyright* without authorizing importation into the United States of the copies made and sold overseas. In that case, the Court held, "the first sale doctrine would not provide a defense to" an infringement action if those copies were imported into the United States. 523 U.S. at 146-47. Petitioner

concedes the point: they argue that, if a copyright owner gave "Person A" "exclusive American publishing rights" and "Person B" "exclusive British publishing rights," "B's books are not lawfully made under the Copyright Act . . . because B did not receive U.S. rights from the copyright owner." Pet. 14; *see also* Pet. 17 (conceding that first-sale doctrine does not apply "to copies lawfully made under foreign law").

Petitioner argues that this case should be treated differently because respondent manufacturer is also the *owner* of the U.S. copyright. *See* Pet. 9-10 ("because Omega is the U.S. copyright holder, any copies that it makes are necessarily in compliance with" the Copyright Act); Pet. 19 ("[p]ermitting use of the first-sale doctrine here requires nothing more than a factual determination about whether the manufacturer abroad is the U.S. copyright holder").[3]

But it would make no sense for the application of the first-sale doctrine to turn on whether the foreign manufacturer is the holder of the U.S. copyright. If that were the law, a U.S. copyright holder that wanted to maintain enforcement rights against unauthorized imports provided by § 602(a) would simply arrange its affairs to ensure that the same legal entity did not both hold the U.S. copyright and manufacture the copy abroad. For example, a manufacturer could transfer the U.S. copyright to a separate subsidiary. That subsidiary could decline to

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[3] Some *amici* seek to draw the same distinction. *See* Brief for eBay Inc. 3 ("[t]his case raises the question whether copyrighted goods manufactured abroad *by United States copyright owners* are entitled to . . . downstream protection") (emphasis added); *see also* Brief of Retail Industry Leaders Association *et al.* 18-19 ("[a]ny item lawfully made by or with the authority of the United States copyright owner is made 'under this title'").

give the manufacturing entity any right to import or distribute copies in the United States, and instead authorize importation by another entity. *Cf. Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) (noting that, where copyright holder is a subsidiary, "that does not mean that the parent owns the copyright"). If the manufacturer itself held no license to the U.S. copyright, petitioner concedes – and *Quality King* makes clear – that the first-sale defense would not be available.[4]

As the Court expressly recognized in *Quality King*, § 602(a) is designed to ensure that a copyright holder can authorize exclusive distribution in the United States without facing the threat that unauthorized importation of goods manufactured "under the law of some other country," 523 U.S. at 147, will undercut the value of U.S. distribution rights. *See* 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141 ("[C]ompetition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies . . . that it sells."); *Swatch*, 454 F. Supp. 2d at 1254 ("Under Section 602(a), Swatch had the right to prevent these products from entering the

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[4] By the same token, the argument that petitioner's rule would somehow free downstream retailers from the task of determining whether copies were imported with authorization is incorrect. Because § 602(a) applies to *some* genuine copies imported without authorization – as petitioner concedes, *see* Pet. 14, 17 – a retailer may be liable for infringement if it sells copies of unknown provenance that turn out to have been imported in violation of § 602(a). (That concern is not implicated here in any event, however, because Costco *deliberately* acquired copies that it knew were imported without authorization, after Omega had the temerity to decline Costco's proposed distribution terms.)

United States and competing with the identical products authorized to be distributed here.").[5] Given that principle – which petitioner does not challenge – a U.S. copyright holder will be able to ensure that copies made abroad cannot be lawfully imported without authorization. Petitioner's rule could increase transaction costs – by requiring copyright holders to create increasingly complicated contractual arrangements to preserve the enforcement rights granted under § 602(a) – but would not significantly alter the value of the rights provided under that provision.[6] Accordingly, the issue presented implicates no significant policy under the Copyright Act and does not merit this Court's attention.

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[5] *See also* Elin Dugan, Note, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court Decisions Affecting the U.S. and European Gray Markets*, 33 Geo. Wash. Int'l L. Rev. 397, 410 (2001) (explaining that the "gray market" undermines manufacturers' incentives "to invest in the promotion of their products").

[6] "Should it make a difference whether the copyrighted goods were manufactured by the U.S. copyright holder itself, rather than by a licensee of the copyright holder? . . . [S]uch a result would be unfortunate. For it would engender further uncertainty into this difficult area by having importation rights turn on the precise legal relationships among manufacturers, middlemen and distributors." 2 *Nimmer on Copyright* § 8.12[B][6][b], at 8-178.4(2).

II. THE NINTH CIRCUIT'S DECISION IS CORRECT

Review is particularly unwarranted because the Ninth Circuit's decision – which represents the interpretation of the Copyright Act that has prevailed for a quarter century – is correct.

A. The Decision Gives Effect to the Plain Meaning of §§ 602(a) and 109(a)

1. Contrary to petitioner's argument, the Ninth Circuit's decision is consistent with the plain language of the Copyright Act. Section 602(a) broadly provides that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a). There is no dispute for present purposes that § 602(a) reaches the alleged conduct at issue here: copies of the work were acquired outside of the United States and imported without respondent's authority.

Quality King holds that § 109 provides a defense to infringement under § 602(a) when "a particular copy [is] . . . lawfully made under this title." *See* 523 U.S. at 145. But a copy made overseas for sale overseas is not "lawfully" (or unlawfully) "made under this title" because the production and sale of the copy does not implicate any of the exclusive rights granted under the Copyright Act. Section 106 of the Copyright Act enumerates copyright owner's "exclusive rights to do and to authorize" certain activities, including the right "to reproduce the copyrighted work." 17 U.S.C. § 106(1). But those exclusive rights do not apply to conduct that takes place exclusively outside the United States. *See United Dictionary Co. v. G. & C.*

Merriam Co., 208 U.S. 260 (1908); 4 *Nimmer on Copyright* § 17.02, at 17-19 ("[C]opyright laws do not have any extraterritorial operation."). Accordingly, when a copy is made outside of the United States for sale outside of the United States, it cannot be made "pursuant to, or in compliance with, the Copyright Act" – to use the definition urged by petitioner. Pet. 9. Nor can it be made in violation of the Copyright Act. The Copyright Act simply does not address the conduct.

Petitioner argues that, "because Omega is the U.S. copyright holder, any copies that it makes are necessarily in compliance with 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to make or authorize copies." Pet. 9-10. But petitioner is simply wrong that § 106(1) gives respondent any right to make or to exclude others from making copies *in Switzerland*. Accordingly, it is nonsensical to say that copies made in Switzerland for sale outside the United States are either lawfully or unlawfully "made under this title."

The Ninth Circuit's analysis is also consistent with the exhaustion principle underlying the first-sale doctrine. The exhaustion principle provides that, once a copyright holder has "exercised" one of his exclusive rights under the Copyright Act, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908), the copyright holder can no longer control the further distribution of the particular copy. *See Quality King*, 532 U.S. at 152. In the case of a copyrighted work made and sold abroad without authorization to import the copy or sell it in the United States, the copyright holder has exercised no right *under the Copyright Act*, because the Copyright Act does not, of its own force, apply outside the United States. Put

another way, the copyright holder has *not* placed the copy into the stream of *domestic* commerce by making it and selling it abroad. A right that has not been exercised cannot be "exhausted."

2. By contrast, petitioner's preferred construction violates the important principle that a statute must be construed to avoid rendering any of its language surplusage. *See, e.g., TRW Inc. v. Andrews*, 534 U.S. 19, 31 (2001) ("It is a cardinal principle of statutory construction that a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void, or insignificant.") (internal quotation marks omitted). In petitioner's view, "lawfully made *under this title*" simply means lawfully – *i.e.*, not unlawfully – made. But, under this reading, the phrase "under this title" has no separate significance. The Ninth Circuit's construction recognizes that the phrase "under this title" reflects the principle that conduct that exhausts a copyright holder's rights under the Copyright Act must be conduct to which the Copyright Act applies in the first place. The making of a copy in the United States involves conduct to which the Copyright Act applies – and is therefore "under this title" – which justifies application of the first-sale doctrine. The making of a copy abroad does not. Likewise, to read "lawfully made under this title" to mean "not unlawfully made" would render superfluous the three statutory exceptions to § 602(a) for the importation of limited numbers of copies for personal, scholarly, or religious purposes, as such copies will frequently be lawfully made under a foreign copyright. *See* 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141-42.

The Ninth Circuit's construction is further reinforced by the language of § 602(b) – also newly adopted as

part of the Copyright Act of 1976 – which bars importation of copies "where the making of the copies . . . would have constituted an infringement of copyright *if this title had been applicable*." 17 U.S.C. § 602(b) (emphasis added). By using this language, Congress showed that it was sensitive to the difference between conduct that is "under this title" – *i.e.*, conduct to which the Copyright Act is applicable – and conduct to which the Copyright Act does not apply because (for example) it takes place overseas. The manufacture of goods overseas – even if the manufacture is lawful under foreign law – falls into the latter category.[7]

3. The Ninth Circuit's holding that a copy made overseas and imported without authorization is not "lawfully made under this title" is consistent throughout the statute. For example, § 110(1) permits "performance or display" of copies, unless, "in the case of a motion picture or other audiovisual work," the copy

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[7] *Amici*, but not petitioner, argue that § 602(a) is directed solely to the prevention of "importation of *pirated* copies manufactured abroad." Brief of Public Citizen 8; *see also* Brief for eBay 13 (arguing that § 602(a) does not apply to "genuine goods"). This construction is inconsistent with *Quality King* and the legislative history (as discussed below). Moreover, it makes no sense in light of the fact that Congress knew exactly how to describe piratical goods made abroad, and it did so in § 602(b). Furthermore, that construction would render nonsensical the second sentence of § 602(b) – which provides that the Customs Service has "no authority to prevent . . . importation" of "copies . . . [that] were lawfully made." 17 U.S.C. § 602(b). That clarification of the scope of Customs Service authority only makes sense if importation of copies that were "lawfully made" – that is, lawfully made under some law *other than* the Copyright Act – can constitute infringement. Otherwise, there would be no question of the Customs Service preventing the importation of such copies.

"was not lawfully made under this title" and the "person responsible for the performance knew or had reason to believe" that the copy was "not lawfully made." 17 U.S.C. § 110(1). Under the Ninth Circuit's decision, a person could not knowingly display a copy of a movie in the United States that was imported in violation of § 602(a). There is nothing odd about that.

Petitioner appears to argue that, under the Ninth Circuit's construction of the phrase "not lawfully made," the safe harbor of § 110 would not apply to *any* copy made overseas, even if imported and sold with the copyright holder's authorization. *See* Pet. 10-11. But there is no support for that argument in the Ninth Circuit's construction of § 109(a). To the contrary, Ninth Circuit law makes clear that, whenever a copyright holder has exercised its right to reproduce *or to distribute* copies in the United States, § 109(a) applies. Referring to its prior decisions in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996), the Ninth Circuit noted that "parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred." Pet. App. 16a. Just as any copy legitimately reproduced or sold in the United States is "lawfully made under this title" for purposes of § 109(a), so too would such a copy be lawfully made under this title for other purposes under the statute.

For related reasons, the argument that the Ninth Circuit's construction of § 109(a) turns exclusively on the "location of manufacturing," Pet. 12, cannot be reconciled with the decision below and Ninth Circuit precedent. Under existing Ninth Circuit law, the

first-sale doctrine applies whenever a copy is *either* made in the United States *or* sold in the United States with the copyright holder's authorization. What matters is whether the particular copy has been made or sold in such a way that the U.S. copyright holder has exercised its exclusive rights under the Copyright Act. Here, petitioner's sole claim is that the copies were lawfully "made," *not* that they were imported or distributed with the copyright holder's authorization. Because the only issue presented to the Ninth Circuit was whether a copy manufactured and sold abroad was lawfully made "under this title," it is not surprising that the Ninth Circuit limited its decision to the question before it. *See* Pet. App. 17a.

B. The Ninth Circuit's Decision Is Consistent with *Quality King*

1. Petitioner claims that the Ninth Circuit "blatantly ignore[d]" *Quality King*. Pet. 16. Not so. The Ninth Circuit carefully addressed the holding and reasoning of *Quality King*. In doing so, it concluded correctly that neither required the court to reverse settled Ninth Circuit precedent holding that § 109(a) does not apply where copies are made and sold overseas. *See* Pet. App. 10a-16a.

The Ninth Circuit's understanding of *Quality King* is correct. The centerpiece of the Court's opinion is the discussion of the application of § 602(a) "to a category of copies that are neither piratical nor 'lawfully made under this title,'" including "copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." 523 U.S. at 147. The Court makes clear that there are circumstances in which genuine copies may not be imported without authorization,

first-sale doctrine notwithstanding – as petitioner concedes. *See* Pet. 14; *Quality King*, 523 U.S. at 148. The Ninth Circuit's decision holds that a copy made and sold overseas falls into the category of copies made "under the law of some other country" – whether manufactured by a U.S. copyright holder or by a licensee under the U.S. copyright holder's foreign copyright. *See* Pet. App. 15a. There is no credible basis for arguing that this holding conflicts with *Quality King* or its reasoning.

The leading treatises confirm this analysis. *Quality King* dealt with "copyright goods, lawfully made *in the United States*," that were "shipped abroad for resale and subsequently reintroduced into the United States by the foreign purchaser." 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:142. "Because there was no question that the product labels in issue were lawfully made *under United States law*, nor any doubt that their owner had parted with title to them, the defendant was entitled to the first sale defense." *Id.* at 7:143. But "[t]he Court underscored that the same result would not apply to works manufactured abroad." *Id.* "At the very least, the Court's insistence, and Justice Ginsburg's concurring observation" – *i.e.*, that the Court's opinion did not "resolve cases in which the allegedly infringing imports were manufactured abroad," *Quality King*, 523 U.S. at 154 (Ginsburg, J., concurring) – "indicates an intention not to disturb lower court holdings that the first sale defense is unavailable to importers who acquire ownership of gray market goods made abroad and to resellers who acquire ownership in the United States of copies lawfully made abroad but unlawfully imported into the United States." 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:144; *see also* 2 *Nimmer on Copyright*

§ 8.12[B][6][c], at 8-178.4(10) ("[T]he Court's analysis, particularly of the policy underlying importation, can be understood as mandating acceptance of *Scorpio* [*i.e.*, the rule reaffirmed in the opinion below], making that view seemingly the better one."). "[T]he Copyright Act . . . should still be interpreted to bar the importation of gray market goods that have been manufactured abroad." 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(10).

2. Petitioner argues that the Ninth Circuit "misinterpret[ed] or flatly ignore[d]" *Quality King* when it held that application of the first-sale doctrine to copies made abroad for sale abroad would "'amount to an extraterritorial application of the Copyright Act,'" claiming that the Court in *Quality King* "rejected . . . an argument virtually identical to that adopted by the Ninth Circuit." Pet. 18. Petitioner is incorrect. Section 109(a) applies only to copies "lawfully made *under this title*" and provides that the owner of such a copy (*i.e.*, "made under this title") may "sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a) (emphasis added). In *Quality King*, the Court held only that an owner of goods "lawfully made *under the Act*" is entitled to the protection of the first-sale doctrine no matter where the first sale occurs. *See* 523 U.S. at 145 n.14 (emphasis added). That interpretation does not require any extraterritorial application of the Copyright Act – a person is no less an "owner" because it purchased a copy abroad rather than in the United States. *See id.* ("Such protection does not require the extraterritorial application of the Act any more than § 602(a)'s 'acquired abroad' language does.").

By contrast, under petitioner's interpretation, to find that a copy made abroad was "lawfully made

under this title" would imply that the Copyright Act *governs* the relevant conduct, *i.e.*, merely making a copy outside of the United States for sale abroad. The unquestioned principle that the Copyright Act does not apply outside the United States, *see supra* pp. 13-14, forecloses that interpretation.

C. The Legislative History Reinforces the Conclusion That § 602(a) Applies to Genuine Copies Imported Without Authorization

The conclusion that § 602(a) applies to genuine copies manufactured overseas is confirmed by the legislative history of the Copyright Act. As the House Report explains, "Section 602 . . . deals with two *separate* situations: importation of 'piratical' articles (that is, copies . . . made without any authorization of the copyright owner), and unauthorized importation of *copies . . . that were lawfully made*." H.R. Rep. No. 94-1476, at 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785 (emphases added). The "general rule" is that "unauthorized importation is an infringement merely if the copies . . . 'have been acquired outside the United States,'" with enumerated exceptions. *Id.* at 169-70, *reprinted in* 1976 U.S.C.C.A.N. 5785-86. The legislative history could not state more unequivocally that § 602(a) was intended to provide an enforcement right against genuine copies made and acquired abroad and imported without authorization.

Petitioner argues that the legislative history of § 109(a) supports its proposed construction, because it indicates that a copy that is "'legally made under the compulsory licensing provisions of section 115'" would be a copy lawfully made under this title. Pet. 14-15 (quoting H.R. Rep. No. 94-1476, at 79, *reprinted in* 1976 U.S.C.C.A.N. 5693). The argument proves nothing, because there is no dispute that,

where a copy is made pursuant to the compulsory licensing provisions of § 115, it is lawfully made *under this title* – in particular, § 115. A copy can be lawfully made under that provision if the maker complies with the statutory requirements because the maker would have acquired a license *under the U.S. copyright*; the owner of such a copy could then distribute it in the United States without infringing the U.S. copyright. This argument by petitioner does not address whether a genuine copy made overseas is – without more – "lawfully made under this title."

D. The Ninth Circuit's Holding Leads to No Absurd Results

Petitioner argues that the decision below "mandates a number of nonsensical outcomes," Pet. 23, and *amici* seek to add to the list, *see, e.g.*, Brief of Entertainment Merchants Association *et al.* 7-13. But petitioner's examples – based on hypothetical facts that are not before the Court – either are not absurd at all, misstate the law of the Ninth Circuit, or, at most, identify an open question that this case does not present. Virtually all of the examples ignore the reality that any supposedly paradoxical results can be avoided through contract.

- In the case of a copy of a British edition of a book, made with no license to import or distribute the copy, a traveler could – under an express statutory exception to § 602(a) – import the copy "for . . . private use," but "*not for distribution*." 17 U.S.C. § 602(a)(2) (emphasis added). To argue that the sale of such a copy is an infringement simply gives effect to express statutory language. In any event, whether a copy imported pursuant to an exception to § 602(a) should be considered to be subject to

the first-sale doctrine is a question not presented here – indeed, absent systematic abuse, enforcement in such a case would be exceedingly unlikely.

- In the case of a "fine art print," a dealer would presumably insist on worldwide distribution rights, transferable to any purchaser. *Cf. Disenos Artisticos*, 97 F.3d at 380 (copyright holder "authorized its licensee manufacturers to sell . . . to 'all countries of the world'"). As noted above, under governing Ninth Circuit law, authorized importation (or authorized sale) in the United States exhausts a U.S. copyright owner's exclusive rights, including in the case of copies made abroad.
- There would be no obstacle to the resale of a foreign-made compact disc, so long as it was imported or sold in the United States with the U.S. copyright holder's authorization.
- Libraries can continue to lend foreign-language texts lawfully imported into the United States.
- Merchants can continue to sell or rent DVDs made abroad and lawfully imported.
- Automobile manufacturers and their suppliers can, and presumably do, acquire worldwide, transferable rights to the software they include in automobiles. (And it would be a curious business strategy for a developer of software for use in automobiles to sue car purchasers for infringement.)

More fundamentally, whether the Court were to adopt petitioner's reading of the Copyright Act or the Ninth Circuit's would not affect *any* of the examples that petitioner and its *amici* may invent. Petitioner

concedes that, in any case where someone *other than* the U.S. copyright holder manufactures a copy overseas without a license to import or distribute the copy in the United States, such a copy is not "lawfully made under this title." *See* Pet. 14, 17. The Ninth Circuit's construction of § 109(a) – which treats all copies made abroad by any entity in the same manner – does not affect the underlying distinction between copies "lawfully made under this title" and copies made "under the law of some other country," which cannot be imported without authorization.

Petitioner's interpretation of § 109(a) would make the applicability of the first-sale defense depend on whether the maker – regardless of its nationality and regardless of other copyrights it held in any country – also happens to own a U.S. copyright. That rule *would* lead to absurd and unfair results and impose needless transaction costs. Such a rule would draw distinctions based on "the precise legal relationships among manufacturers, middlemen and distributors." 2 *Nimmer on Copyright* § 8.12[B][6][b], at 8-178.4(2). The Ninth Circuit's straightforward reading of §§ 602(a) and 109(a) achieves exactly what Congress intended to achieve – the prohibition of unauthorized importation of genuine copies not lawfully made under the Copyright Act – thus ensuring that a U.S. copyright owner reaps the reward of the exclusive rights granted under the Copyright Act.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

MATTHEW C. WAGNER
JESS M. COLLEN
THOMAS P. GULICK
COLLEN IP
The Holyoke-Manhattan Building
80 South Highland Avenue
Ossining, New York 10562
(914) 941-5668

MICHAEL K. KELLOGG
Counsel of Record
AARON M. PANNER
KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C.
1615 M Street, N.W.
Suite 400
Washington, D.C. 20036
(202) 326-7900

Counsel for Respondent

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REPLY BRIEF

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In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA, S.A.,
Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

REPLY BRIEF FOR PETITIONER

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

Counsel for Petitioner

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REPLY BRIEF FOR PETITIONER

The central assertion of respondent's brief in opposition is that any product made abroad—even by the holder of the U.S. copyright—cannot be "lawfully made under" the Copyright Act and is, therefore, not subject to the first-sale doctrine. As *amici* suggest, the ramifications of such a rule would be breathtaking. Without the alienability imposed by the first-sale doctrine, manufacturers would command the right—with or without any contract—to bar resales, rentals, and even gifts of nearly every kind of product imaginable. They would retain that right in perpetuity because a product not originally "lawfully made under this title" cannot otherwise become subject to the first-sale doctrine. To avail themselves of that control, many would shift production overseas, just as U.S. unemployment hits new highs.

Respondent does not acknowledge these points. It does not have to. It takes shelter in an exception that eliminates most of these problems: A good made abroad is not "lawfully made under this title," says the lower court, but if "an authorized first sale" occurs in the United States then that good is susceptible to the first-sale doctrine anyway. Pet. App. 9a. Problem solved.

Whether or not sensible as a matter of policy, that rule has no basis in the Copyright Act's text or legislative history. Both the Ninth Circuit and respondent implicitly recognize that their interpretation of the phrase "lawfully made under this title" is untenable without inventing an exception for goods sold into the United States, though neither makes any real effort to justify it. At the same time, they repeat arguments considered—and rejected—in *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

The interpretation advanced by petitioner—that a good is "lawfully made under this title" if it is made by the U.S. copyright holder, at home or abroad—has none of these flaws. It is grounded in the text of the Act and follows this Court's guidance in *Quality King*. What is more, it permits a sustainable balance between the alienability of products and the monopoly rights of U.S. copyright holders by recognizing that, *through contract*, parties like respondent can exercise some downstream control over their products.

Given the economic importance of the issue, the doctrinal importance of a correct reading of *Quality King*, decades of struggle over this issue in the lower courts, and the very dubious nature of the doctrine the Ninth Circuit has developed, review by this Court is appropriate.

I. The Ninth Circuit's Decision Ignores The Plain Text Of The Copyright Act And The Clear Lessons Of *Quality King*

Section 109(a) of the Copyright Act extends the first-sale doctrine to all goods "lawfully made under this title." As explained in the petition (at 9-13), the most natural reading of this language is that it applies to all goods *made pursuant to, or in compliance with, the Copyright Act*. This encompasses goods made by the U.S. copyright holder, at home or abroad, as well as goods created pursuant to other licensing schemes contemplated under the Act.

Respondent repeatedly maintains that its interpretation follows the plain meaning of the statute. But it nowhere acknowledges that the phrase "lawfully made under this title" is used in other parts of the Copyright Act, or that its construction of the phrase renders those other sections nonsensical, or that when the Copyright Act is concerned with the

place of manufacturing--as it is in §§ 601 and 1004(b), for example—it simply says so explicitly. *See* Pet. 8-12.

In *Quality King*, this court addressed the "narrow[]" question "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." *Quality King*, 523 U.S. at 138. The Court answered in the affirmative: the first-sale doctrine *does* apply to imported goods. The Court did not distinguish between the importation of copies manufactured abroad and the "re-importation" of goods originally manufactured in the United States; the holding applies equally to both. *See* 2 NIMMER ON COPYRIGHT § 8.12[B][6][c], at 8-176 (3d ed. 2007) ("[T]he entire way that the Court encapsulated the inquiry before it indicates that its ruling should be given a broad sweep, instead of being confined to the operative facts at play in that particular case.").

It is deeply misguided to argue (Br. in Opp. 13-15) that the presumption against extraterritoriality shields goods made by U.S. copyright holders abroad from the first-sale doctrine. As the petition notes (at 18-19), the Court in *Quality King* addressed—and rejected—a virtually identical argument, holding that a defendant's invocation of the first-sale doctrine's "protection does *not* require the extraterritorial application of the Act any more than § 602(a)'s 'acquired abroad' language does." 523 U.S at 145 n.14 (emphasis added). That holding is perfectly sensible: The first-sale doctrine does not purport to regulate conduct abroad. It simply provides a defense to an infringement action brought in a U.S. court by a U.S. copyright holder. Respondent does not explain why the place of manufacturing implicates extraterritorial concerns even when, as this Court held, the place of sale does not.

Nor is respondent correct when it claims (Br. in Opp. 16) that a good is made "under foreign law"—and not "made under this title"—simply because it is made abroad. The two are not mutually exclusive. This Court's hypothetical example in *Quality King* acknowledges that "[i]f the author of [a] work gave the exclusive United States distribution rights . . . to the publisher of the United States edition[,] . . . those [copies] made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." 523 U.S. at 148. That statement does not refer to the place of manufacture, only to "rights" granted. As the petition explains (at 14), it makes no sense to conclude that, if the publisher given the U.S. distribution rights happened to manufacture its copies in England, then those copies are not "lawfully made under this title." Indeed, if that publisher had also been given English distribution rights, it is manifestly the case that its works would be *both* "lawfully made under this title" *and* lawfully made under English law. There is nothing odd about that.

For the same reason, respondent is incorrect when it asserts (Br. in Opp. 15) that petitioner's interpretation renders meaningless the words "under this title." Were that true, a copy made in a country that permitted piracy would fall within § 109(a). Plainly, that is not what petitioner urges. Indeed, petitioner's interpretation that that a copy "lawfully made under this title" means one made by the U.S. copyright owner no more renders that language meaningless than respondent's assertion that it means "made in the United States."

Respondent's reliance on legislative history (Br. in Opp. 21) to suggest that § 602 bars the unauthorized importation of any good acquired abroad even if it is "lawfully made" is both wrong and irrelevant. That argument was squarely rejected as the *core*

holding of *Quality King*: § 602(a) does not bar the importation of goods if they are "lawfully made under this title." And the legislative history cited by respondent sheds no light on the definition of that phrase, which is the only matter at issue here.

Respondent urges this Court to ignore petitioner's straightforward reading of the statute because of a supposed "loophole" that would enable certain U.S. copyright owners to avoid the first-sale doctrine though corporate reorganization. Br. in Opp. 2. That is entirely speculative: Such reorganization is not without cost, and it is not clear why any company would engage in such restructuring when the cheaper and more expedient path is simply to enter into contracts that bar certain redistributions and pursue companies that violate those terms. Moreover, this is not an issue without precedent in the intellectual property laws: The trademark laws, for example, extend the first-sale doctrine to goods made by a separate subsidiary when the mark holder has no "real independence from the foreign manufacturer." *See, e.g.*, *NEC Electronics* v. *CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987). *See also* 19 CFR § 133.23(a)(2) (doctrine extends to goods made by "a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control"). Later courts can address these issues, if necessary; they are not before the Court here.

Respondent's concern with holes in § 109(a) is ironic, given that its preferred reading of the statute creates an incredibly large and exceedingly troublesome one. As the lower court itself recognizes, its own interpretation of the statute—which ties the first-sale doctrine to the place of manufacturing—"would provide substantially greater copyright protection to foreign-made copies of U.S.-copyrighted works." Pet. App. 15a. Indeed, the Ninth Circuit has acknowledged more broadly that its case law pro-

duces "absurd and unintended results," *Parfums Givenchy* v. *Drug Emporium*, 38 F.3d 477, 482 n.8 (9th Cir. 1994).

Those results should have prompted the court to reexamine its flawed reading of the statute; for example, reading "lawfully made under this title" to mean "made by the holder of U.S. copyright" does not suffer from these glaring problems. Instead, however, the lower court sought shelter from absurdity in "an exception" to the otherwise plain and succinct language of § 109(a), one that applies the first-sale doctrine "to copies not made in the United States so long as an authorized first sale occurs here." Pet. App. 9a.

That exception was created in a footnote of one pre-*Quality King* opinion. *See Drug Emporium*, 38 F.3d at 482 n.8. It is based on neither the text of the Copyright Act nor its legislative history. Indeed, the *Drug Emporium* panel went to great lengths to emphasize that the exception "should not be read as an endorsement" of the rule that goods made abroad are not subject to the first-sale doctrine, *ibid.*, but simply a reflection of the fact that the panel could not itself overrule *BMG Music* v. *Perez*,[1] *id.* at 482 n.8. Although the logic of *BMG Music* was overruled in *Quality King*, the lower court did not reexamine whether *Drug Emporium*'s exception was foreclosed as well. Pet. App. 17a.

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[1] As explained in the petition (at 6-7), *BMG Music* v. *Perez*, 952 F.2d 318 (9th Cir. 1991), is the Ninth Circuit origin of the rule that goods made abroad are not subject to the first-sale doctrine. That opinion rested on the incorrect conclusion, explicitly overruled by *Quality King*, "that construing [§] 109(a) as superseding the prohibition on importation set forth in § 602 would render § 602 virtually meaningless." *Id.* at 319 (internal citation and punctuation omitted).

In *Quality King*, this Court directed the lower courts to "[r]ead literally" the text of § 109(a). 523 U.S. at 145. Whatever the merits of a rule that would deny first-sale protection to goods made abroad but then re-apply the doctrine if those goods are later authorized for domestic sale, such a rule "has absolutely no basis in the text of the Copyright Act.

In contrast, petitioner's interpretation—that "lawfully made under this title" encompasses both goods made by the U.S. copyright holder and those made pursuant to other Title 17 licensing schemes—needs no judicially created "exception" to save its logic. It is true to the text and history of § 109(a), the lessons of *Quality King*, and the rationale for the first-sale doctrine. As this Court observed, "[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." 523 U.S. at 152.

II. The Question Presented Is Of Great Economic Significance

The centrality of the *Drug Emporium* exception to the lower court's opinion cannot be overstated. Respondent everywhere emphasizes that the opinion below is without "any significant impact" (Br. in Opp. 9) and "of little importance" (Br. in Opp. 2). It is able to make those claims *only* because of *Drug Emporium*, an opinion whose logic and mode of analysis was undermined by *Quality King*, and whose raison d'être (working around *BMG Music*) no longer exists. Without that exception, however, Omega "could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland," an absurdity

even the lower court acknowledges. Pet. App. 16a. But that is simply the tip of the iceberg.

Amici, which represent a varied and diverse group of business and consumer interests, are unified in their view that denying first-sale treatment to goods made abroad by U.S. copyright holders has severe consequences for the nation's economy. Among the most devastating effects:

- The decision creates considerable incentives for U.S. copyright holders to transfer manufacturing operations abroad. *See* Brief for Public Knowledge 13-14.
- The decision will depress the $58 billion secondary market for lawfully-produced goods. *See* Brief for Retail Industry Leaders Ass'n *et al.* ("RILA") 8 n.3.
- The decision creates considerable confusion about the legal regime governing digital media purchased over the internet. *See* Brief for Ent. Merchants Ass'n and Nat'l Ass'n of Recording Merchandisers 10-13.
- The decision dramatically restricts the ability of consumers to rent and even gift a large class of common goods. *See id.* at 8-10; Brief for Public Citizen 6-10.

As the petition notes (at 23-24), these effects manifest themselves in unreasonable ways that could not possibly reflect Congress's intent. Respondent has no meaningful explanation or response for any of them. Respondent concedes, for example, that under its proposed rule a tourist could not resell, lend, or even give away copyrighted souvenirs lawfully purchased abroad but suggests the whole matter should be overlooked because enforcement "would be exceedingly unlikely." Br. in Opp. 22-23.

Respondent simply assumes away other absurdities with wordplay. Of course there is "no obstacle" to the sale, rental, or lending of foreign-made compact discs, texts, or DVDs if they are "lawfully imported." But such conclusory statements beg the question presented here: Is a foreign-language text or recording made abroad by a U.S. copyright holder "lawfully imported" when imported by a lawful overseas purchaser? Respondent believes that the answer is no and, as a result, must find it illegal for a library to lend a foreign-language work made abroad. It is no surprise that respondent tries to obfuscate this point.

Respondent sidesteps the remaining problems—examples involving fine art and automobiles—by asserting that the parties could simply contract around them. Br. in Opp. 23. This is undoubtedly true. So true, in fact, that it is easy to miss the larger point: If a U.S. copyright holder wants to restrict the later importation of goods made and sold abroad it can simply do so by contract and enforce those rights against distributors in breach. Respondent, which claims that it made such contracts with the distributors whose watches were later sold by petitioner (Br. in Opp. 3 n.1), could pursue its contractual remedies. The Copyright Act need not be twisted in knots simply to create a new remedy against a different party.

III. The Question Presented Has Troubled Lower Courts For Years

Respondent pretends that the Ninth Circuit's decision simply "applies the law as it already has stood for at least a quarter century" (Br. in Opp. 1). That is a gross overstatement. Commentators and courts agree that the law is particularly unsettled. *See, e.g.*, 2 NIMMER § 8.12[B][6][c], at 8-178.3 n.111.83 (concluding that "a unanimous Supreme Court opinion

has now addressed the copyright gray market, without leaving any clear guidance as to what the status is of pedestrian gray market goods manufactured abroad and sought to be imported into the United States").

Even before its reversal in *Quality King*, the Ninth Circuit had expressed doubts about its own precedent. In addition to *Drug Emporium*, the Ninth Circuit acknowledged in *Disenos Artisticos E Industriales, S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996), that its precedent could lead to liability for "every little gift shop in America" that doesn't know the precise origin of its merchandise. As already emphasized, the Ninth Circuit never fully confronted these problems, choosing instead to create the lawless exception that props up respondent's position here.

That exception is anything but "widely understood" to be correct (Br. in Opp. 9). Indeed, as the petition notes (at 25-26), there is no doubt that the decision below is in conflict with the reasoning of *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) ("confess[ing] some uneasiness with [a] construction of 'lawfully made'" that turned on the place of manufacturing). Though respondent correctly notes that the precise holding in *Sebastian* did not pertain to goods made abroad, it fails to acknowledge that the logic employed by the Third and Ninth Circuits is simply irreconcilable. *See* 2 NIMMER § 8.12[B][6][a], at 8-172 n.111.24.

Respondent suggests that the tension between the Third and Ninth Circuits is immaterial because "district courts before and after *Quality King* have carefully examined this issue." Br. in Opp. 8. That is untrue. As a review of the lower court opinions cited in the petition (at 27-28) shows, district courts after

Quality King have no more taken seriously this Court's direction to "[r]ead literally" the "unambiguous[]" text of the Copyright Act, 523 U.S. at 145, than did the Ninth Circuit. Instead, those courts have either treated Justice Ginsburg's concurrence as the law of the land or cited the opinion below as precedent with no analysis. This is perhaps not surprising because, as *amicus* points out, most defendants are small, impecunious retailers that lack the wherewithal to mount a meaningful defense against well-financed, major manufacturers, let alone to appeal an adverse ruling. *See* Brief of RILA 15-16. The present case, with full briefing on both sides and multiple *amici*, gives the Court a rare opportunity to bring clarity to this consequential issue. It is an opportunity the Court should welcome.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL,
ENGLERT, ORSECK,
UNTEREINER & SAUBER
LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

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AMICUS CURIAE BRIEF

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In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION, PETITIONER

v.

OMEGA, S.A.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

ELENA KAGAN
Solicitor General
Counsel of Record
TONY WEST
Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
MELISSA ARBUS SHERRY
Assistant to the Solicitor General
SCOTT R. MCINTOSH
MARK R. FREEMAN
Attorneys
Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

QUESTION PRESENTED

Section 602(a)(1) of Title 17 generally prohibits the "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States." Under 17 U.S.C. 109(a), however, "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), this Court held that, where Section 109(a) applies, it provides an exception to the general ban on the unauthorized importation into the United States of copies of copyrighted works. The question presented in this case is as follows:

Whether a copy made outside of the United States by the owner of the United States copyright is "lawfully made under this title [*i.e.*, Title 17]" and is therefore covered by Section 109(a)'s exception to the general ban on unauthorized importation.

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In the Supreme Court of the United States

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v.

OMEGA, S.A.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

This brief is submitted in response to the order of this Court inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be denied.

STATEMENT

1. Section 106(3) of Title 17 grants a copyright owner an exclusive distribution right, 17 U.S.C. 106(3), "[s]ubject to sections 107 through 122," 17 U.S.C. 106. Section 602(a)(1) provides that "[i]mportation into the United States, without the authority of the [copyright owner], of copies * * * of a work that have been acquired outside the United States is an infringement of the [owner's] exclusive right to distribute copies" granted by Section

106(3). 17 U.S.C. 602(a)(1).[1] And Section 109(a) states that, "[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. 109(a). Section 109(a) is the current codification of the "first sale doctrine" initially recognized by this Court in *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908).

In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135, 143-152 (1998) (*Quality King*), this Court held that Section 109(a) establishes an exception to Section 602(a)(1)'s general ban on unauthorized importation. The Court also recognized that the first sale doctrine in its current form "applies only to copies that are 'lawfully made under this title.'" *Id.* at 152 (quoting 17 U.S.C. 109(a)). Because the imported copies at issue in *Quality King* were manufactured in the United States by the copyright owner, see *id.* at 138-139, the case did not present the question whether copies produced outside this country could be "lawfully made under this title" within the meaning of Section 109(a). See *id.* at 154 (Ginsburg, J., concurring).

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[1] In October 2008, shortly after the court of appeals issued the decision below, Congress amended Section 602 of the Copyright Act to add a separate private cause of action against importers of piratical copies. See Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b), 122 Stat. 4259. The legislation also reorganized the existing provisions of Section 602. The exclusive importation right discussed by the parties and by the court below, formerly codified at 17 U.S.C. 602(a), was redesignated as Section 602(a)(1). All citations in this brief are to the amended version of the statute (to be codified at 17 U.S.C. 602(a)(1) (Supp. II 2008)).

2. Respondent Omega, S.A., a Swiss corporation, manufactures wristwatches in Switzerland and sells them internationally, including in the United States, through a network of distributors and retailers. Pet. App. 3a. On the back of each watch, respondent engraves a small logo, which it calls the "Omega Globe Design," that is registered as a copyrighted work with the United States Copyright Office. *Ibid.*

Respondent sold watches overseas to an authorized distributor under an agreement to limit resale to specific territories outside the United States. Pet. App. 4a; Br. in Opp. 3 n.1. The watches were imported into the United States by unidentified third parties and were ultimately purchased by petitioner Costco Wholesale Corporation, which sold them to consumers in California. Pet. App. 3a-4a. Although respondent authorized the initial overseas sale, it did not authorize importation into the United States or the subsequent domestic sales. *Id.* at 4a; see *id.* at 17a.

Respondent brought this suit for copyright infringement under 17 U.S.C. 106(3) and 602(a)(1) and moved for summary judgment. Pet. App. 4a. Petitioner filed a cross-motion for summary judgment, arguing that, under Section 109(a), respondent's voluntary first sale of the watches bearing its copyrighted logo exhausted its right to control the distribution or importation of those copies. *Ibid.* The district court granted summary judgment for petitioner without explanation. *Id.* at 18a-19a.

3. The court of appeals reversed and remanded for further proceedings. Pet. App. 1a-17a.

The court of appeals first explained that, in a series of cases predating *Quality King*, the Ninth Circuit had held that Section 109(a) does not provide a defense against infringement claims for importing copies that

were made and first sold overseas. Pet. App. 8a-9a. Because respondent had "made copies of the Omega Globe Design in Switzerland and [petitioner] sold the copies without [respondent's] authority in the United States," the court concluded that petitioner could not have prevailed under that case law. *Id.* at 9a.

The court of appeals next concluded that *Quality King* did not undermine those circuit precedents. Pet. App. 10a-17a. The court observed that this Court in *Quality King* had not directly addressed the application of Section 109(a) to foreign-made copies because that case involved a "round trip" importation in which the copyrighted goods were originally manufactured in the United States. *Id.* at 10a-11a. The court of appeals further explained that this Court in *Quality King* had distinguished between copies lawfully made under United States regulatory statutes and copies lawfully made under foreign law. *Id.* at 13a-15a. Relying on that distinction, the court of appeals concluded that "copies covered by the phrase 'lawfully made under [Title 17]' in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright"; they are those made "*within the United States*, where the Copyright Act applies." *Id.* at 14a.

The court of appeals acknowledged that, taken to its logical extreme, the court's construction of Section 109(a) could allow a copyright owner to "exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland." Pet. App. 16a. Such a rule, the court recognized, "would likely encourage [United States] copyright owners to outsource the manufacturing of copies of their work overseas." *Ibid.* Earlier Ninth Circuit cases had "resolved this problem," the court explained, by holding that any domestic sale

authorized by the copyright owner would trigger the application of Section 109(a), even when the copy in question was lawfully made overseas. *Ibid.* Because respondent had not authorized any of the domestic sales in this case, the court of appeals found it unnecessary to decide whether those holdings survived *Quality King*. *Id.* at 17a.

DISCUSSION

The decision below is consistent with this Court's analysis of Section 109(a) in *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), and it does not conflict with any decision of another court of appeals. Although the court of appeals' reasoning could result in adverse policy consequences, particularly if carried to its logical extreme, the government is aware of no evidence that the most serious potential consequences have actually materialized. The Court therefore should deny the petition for a writ of certiorari.

A. The Ninth Circuit's Decision Reaffirms Well-Settled Law And Does Not Conflict With Any Decision Of Another Court Of Appeals

1. As petitioner acknowledges (Pet. 8, 25-28 & nn.11-12), there is no split of authority regarding the application of 17 U.S.C. 109(a) to copies made outside this country by or with the authorization of the United States copyright owner. When the question first arose in *CBS* v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), aff'd, 738 F.2d 421, 424 (3d Cir. 1984) (*Scorpio*) (table), the court concluded that the phrase "lawfully made under this title" limits the first sale doctrine to copies made within the territorial jurisdiction of the United States. The Ninth Circuit reached the same conclusion several years later. *BMG Music* v. *Perez*, 952

F.2d 318, 319-320 (9th Cir. 1991) (*BMG Music*), cert. denied, 505 U.S. 1206 (1992).[2] No other court of appeals has confronted this issue.[3]

The court of appeals' decision is also consistent with the consensus view of the leading commentators on copyright law. See 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[B][6][c] at 8-178.4(10) (rev. ed. 2009) (*Nimmer on Copyright*) (discussing *Quality King* and concluding that the Copyright Act "should still be interpreted to bar the importation of gray market goods that have been manufactured abroad"); 4 William F. Patry, *Patry on Copyright* § 13:44, at 13-96 (2009) (The Copyright Act "bars only the importation of copies that were acquired outside the United States and that were not 'lawfully made under this title,' i.e., were not made in the United States."); 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1.2, at 7:144 (3d ed. Supp. 2007) (concluding that, under *Quality King*, "the first sale defense is unavailable to importers who acquire ownership of gray market goods made abroad and to resellers who acquire ownership in the United States of copies lawfully made abroad but unlawfully imported into the United States").

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[2] The courts in *Scorpio* and *BMG Music* construed Section 109(a) to apply only to copies "legally manufactured *and sold* within the United States." *Scorpio*, 569 F. Supp. at 49 (emphasis added); see *BMG Music*, 952 F.2d at 319 (limiting first sale doctrine to copies "legally made *and sold* in the United States") (emphasis added). This Court's subsequent decision in *Quality King* makes clear, however, that Section 109(a) encompasses copies that are lawfully made within the United States even if they are first sold abroad.

[3] The same question is currently pending before the Second Circuit in *John Wiley & Sons, Inc.* v. *Kirtsaeng*, appeal pending, No. 09-4896 (filed Nov. 24, 2009), and *Pearson Education, Inc.* v. *Allen Air Conditioning Co.*, appeal pending, No. 10-705 (filed Mar. 2, 2010).

2. Petitioner contends (Pet. 25) that the decision below is "in conflict with the reasoning" of the Third Circuit in *Sebastian International, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (1988) (*Sebastian*). That argument lacks merit. Like *Quality King*, *Sebastian* involved a "round trip" importation of hair-care products in which the copyrighted labels attached to the products were made in the United States. The copyright owner sold the labeled products to a foreign party, who reimported them into the United States. *Id.* at 1098-1099. The court distinguished cases like *Scorpio*, where "the copies were produced abroad and the sales occurred overseas," and it "specifically d[id] not pass upon" the question whether Section 109(a) would apply in those circumstances. *Id.* at 1098; see *BMG Music*, 952 F.2d at 319 n.3 (distinguishing *Sebastian* based on the location of manufacture); *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477, 482 n.7 (9th Cir. 1994) (same), cert. denied, 514 U.S. 1004 (1995).

Petitioner relies on a footnote in which the *Sebastian* court expressed "some uneasiness with" the *Scorpio* court's interpretation of Section 109(a). 847 F.2d at 1098 n.1. The *Sebastian* court suggested that, if Congress had intended for the application of Section 109(a) to turn on the "place of manufacture," it might have expressed that intent more clearly. *Ibid.* The Third Circuit's expression of "uneasiness" as to the proper resolution of a question that was not before it, and that the court specifically declined to address, does not establish a circuit conflict. In any event, the *Sebastian* court's inconclusive discussion of Section 109(a)'s potential application to foreign-made copies predates *Quality King*, in which this Court construed Section 109(a) not to encompass "copies that are lawfully made under the law of another country." 523

U.S. at 148. That analysis, which indicates that Section 109(a)'s application *does* depend on the place where copies are manufactured (see pp. 9-10, *infra*), supersedes any contrary suggestion in *Sebastian* and thus mitigates any inter-circuit disagreement that might previously have existed.

B. The Decision Below Represents The Best Reading Of Section 109(a)'s Text In Light Of The Court's Decision In *Quality King* And The Relationship Between Section 109(a) And Other Copyright Act Provisions

1. Petitioner argues (Pet. 16) that this Court's intervention is needed because the court of appeals "blatantly ignore[d]" the "clear principles" announced in *Quality King*. Petitioner misreads this Court's opinion.

The "narrow[]" question presented in *Quality King* was "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." 523 U.S. at 138. The labels at issue in *Quality King* were manufactured in the United States, see *id.* at 139; *id.* at 154 (Ginsburg, J., concurring), and the copyright owner (L'anza) did not dispute that the labels were "lawfully made under this title" within the meaning of Section 109(a), see *id.* at 143. Rather, L'anza argued that Section 602(a)(1)'s ban on unauthorized importation of copyrighted materials is not subject to Section 109(a). See *id.* at 143, 145. The Court rejected that contention. See *id.* at 145-152. Because the relevant copies were made within the United States, and because the dispute between the parties did not concern the proper *interpretation* of Section 109(a) (rather, the parties disagreed on the distinct question whether Section 109(a) applies to unauthorized importation *at all*), the Court had no occasion squarely to decide the issue presented here—*i.e.*, wheth-

er Section 109(a) encompasses copies made outside this country by the United States copyright owner.

The Court's opinion in *Quality King* does, however, provide significant guidance as to the proper resolution of that issue. L'anza (supported by the United States as amicus curiae) argued that applying Section 109(a) to unauthorized imports would thwart Congress's intent in enacting Section 602(a)(1) to expand the importation right beyond piratical copies (*i.e.*, copies whose creation would constitute an infringement of any applicable copyright protection). See *Quality King*, 523 U.S. at 145, 146 & n.17. In rejecting that contention, the Court explained, *inter alia*, that Section 602(a)(1) sweeps more broadly than Section 109(a) because Section 602(a)(1) "applies to a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147; see *id.* at 148.

In elaborating on that point, the Court discussed "one example" that was noted in the deliberations leading up to the 1976 Act. See *Quality King*, 523 U.S. at 147. The Court explained that "[e]ven in the absence of a market allocation agreement between, for example, a publisher of the United States edition and a publisher of the British edition of the same work, each such publisher could make lawful copies." *Id.* at 148. The Court observed that "[i]f the author of the work gave the exclusive United States distribution rights * * * to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." *Ibid.* The

Court did not further explain its conclusion that copies made with the author's consent by the "publisher of the British edition" would not be "lawfully made under this title" for purposes of Section 109(a). The most natural explanation, however, is that such copies would not be "lawfully made under" Title 17 because they would be produced in a place where Title 17 does not apply.

Consistent with the general presumption against extraterritorial application of United States regulatory statutes, see Pet. App. 12a (citing *EEOC* v. *Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991)), the Copyright Act does not apply outside the United States, see, *e.g.*, *United Dictionary Co.* v. *G. & C. Merriam Co.*, 208 U.S. 260 (1908); 4 *Nimmer on Copyright* § 17.02, at 17-19. That understanding informs the proper construction of the phrase "lawfully made under this title" in Section 109(a), particularly given this Court's emphasis on the distinction between copies lawfully made under Title 17 and copies "lawfully made under the law of another country," *Quality King*, 523 U.S. at 148. As petitioner observes (Pet. 17-18), the court of appeals appears to have overstated the matter in suggesting (see Pet. App. 13a) that application of Section 109(a) to the foreign-made copies at issue here would actually constitute an impermissible extraterritorial application of the Copyright Act. Petitioner does not argue that United States law governed the manufacture of respondent's watches abroad; it contends only that respondent's conduct (even though occurring overseas) bears on the legality of the watches' importation and of their subsequent resale in California. But the court of appeals' reliance on the presumption against extraterritoriality as an aid to the proper con-

struction of Section 109(a) (see *ibid.*) is both sound and consistent with *Quality King*.[4]

2. Other provisions of the Copyright Act reinforce the court of appeals' reading of Section 109(a).

a. As explained above, the Court in *Quality King* distinguished between copies lawfully made under Title 17 and copies lawfully made under the law of another country. The Court's analysis indicates that Section 109(a)'s application depends not simply on whether the relevant copies are made in accordance with Title 17's

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[4] In *Quality King*, the United States argued as amicus curiae that Section 109(a) does not apply to importation of copyrighted materials. See Gov't Br. at 7-22, *Quality King*, *supra* (No. 96-1470); 523 U.S. at 145. The Court rejected that contention. See *id.* at 145-152. The government further argued that the application of Section 109(a) does not turn on the place of manufacture, see Gov't Br. at 29-30, *Quality King*, *supra* (No. 96-1470), but that Section 109(a) instead encompasses "any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17," *id.* at 30 n.18.

For two principal reasons, the government no longer adheres to that proposed construction of Section 109(a) in light of this Court's decision in *Quality King*. First, that interpretation appears to be inconsistent with the Court's holding that Section 109(a) does not apply to copies that are created with the author's consent but pursuant to the law of a foreign country. 523 U.S. at 147-148. Second, under the construction advanced by the United States in *Quality King*, Section 109(a) would encompass all copies whose creation would have been lawful if it had occurred in the United States. Given the Court's holding that Section 109(a) (where it applies) provides an exception to Section 602(a)(1)'s ban on unauthorized importation, construing Section 109(a) in that manner would disserve Congress's intent to extend the importation ban beyond piratical copies. See pp. 13-14, *infra*. By contrast, if the Court in *Quality King* had agreed with the government's contention that Section 109(a) does not apply to importation, the government's construction of Section 109(a) as encompassing foreign-made copies would not impede Congress's purposes in enacting Section 602(a)(1).

substantive requirements, but also on whether Title 17 governs the relevant act of copying. Under that approach, respondent's wristwatches were neither "lawfully" nor unlawfully "made under [Title 17]" because they were not "made under" Title 17 at all. United States law simply has no bearing on the legality of respondent's conduct in Switzerland.

Section 602(b), which was enacted contemporaneously with Section 109(a) and which grants Customs the authority to stop the importation of piratical copies of a copyrighted work, provides an instructive contrast. Section 602(b) states: "In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited." 17 U.S.C. 602(b). The counterfactual structure of that provision—"would have constituted an infringement of copyright if this title had been applicable"—demonstrates Congress's recognition that Title 17 does not apply beyond the territorial jurisdiction of the United States.

In 2008, a decade after this Court's decision in *Quality King* and shortly after the court of appeals' ruling in this case, Congress amended Section 602(a) to provide a distinct private right of action against piratical imports. See note 1, *supra*. In so doing, Congress again employed the same counterfactual formulation used in Section 602(b), authorizing civil actions to enjoin the unauthorized importation of copies "which would have constituted an infringement of copyright if this title had been applicable." 17 U.S.C. 602(a)(2). Congress could have used similar language in Section 109(a) if it had intended the application of that provision to turn on a comparable inquiry into whether particular extraterritorial conduct

would have been legal if it had occurred in the United States.

b. In the Copyright Act of 1976, Pub. L. No. 94-553, § 101, 90 Stat. 2541 (17 U.S.C. 101 *et seq.*), Congress both adopted the phrase "lawfully made under this title" and broadened protections against unauthorized imports by enacting Section 602(a)(1). The court of appeals' interpretation of Section 109(a) gives meaning to the phrase "lawfully made under this title," while preserving Congress's manifest intent in adopting Section 602(a)(1).

Section 602(a)(1) represented a departure from the treatment of imported goods under prior law. The Copyright Act of 1909, as codified in 1947, directed the Customs Service to block the importation only of "piratical copies of any work copyrighted in the United States." 17 U.S.C. 106 (1976); see also 17 U.S.C. 107 (1976). This "earlier prohibition is retained in § 602(b) of the present Act." *Quality King*, 523 U.S. at 146; see 17 U.S.C. 602(b). Section 602(a)(1) extends beyond piratical copies to provide copyright owners with a civil cause of action against the unauthorized importation of *all* copies—even those lawfully made—subject to enumerated exceptions. In describing the intended scope of Section 602(a)(1), the Register of Copyrights explained that the provision would bar importation if, "for example, * * * the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." Staff of the House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 150 (Comm. Print 1965).

As earlier discussed, this Court in *Quality King* rejected the contention that, if Section 109(a) were read to

establish an exception to Section 602(a)(1)'s general ban on unauthorized importation, Section 602(a)(1) would effectively be rendered superfluous. The Court explained that Section 602(a)(1) "encompasses copies that are not subject to" Section 109(a), *Quality King*, 523 U.S. at 148, and it observed in particular that Section 602(a)(1) "applies to a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147; see *id.* at 148. If all copies made in foreign jurisdictions by or with the consent of the United States copyright owner are "lawfully made under this title" within the meaning of Section 109(a), the category of copies whose importation could be blocked under Section 602(a)(1) would be extremely small. Under that interpretation, moreover, Section 602(a)(1) could not be invoked in the paradigmatic situation, discussed both in the legislative history and in this Court's decision in *Quality King*, in which a United States copyright owner authorizes copies to be made abroad on the condition that their distribution will be limited to a foreign market.

To be sure, as petitioner notes (Pet. 12), Congress could have referred explicitly to the place of manufacture, as it did in the now-expired manufacturing provision, 17 U.S.C. 601. And, as petitioner also argues (Pet. 10-12), interpreting the phrase "lawfully made under this title" to exclude copies made abroad may be inconsistent with Congress's intent in enacting other provisions of the Copyright Act, such as 17 U.S.C. 110 and the Audio Home Recording Act of 1992, 17 U.S.C. 1001 *et seq.* But in light of the *Quality King* Court's analysis of Section 109(a) and its relationship to the ban on unauthorized

importation imposed by Section 602(a)(1), the court of appeals was correct to hold that Section 109(a) does not encompass copies made outside the United States.

c. Petitioner contends (Pet. 9-10) that "because [respondent] is the [United States] copyright holder, any copies * * * made by [respondent] are 'lawfully made under this title'" within the meaning of Section 109(a). That argument is inconsistent with two features of the statutory scheme discussed above. Petitioner's interpretation would make Section 109(a) turn on whether the creation of particular copies would have been lawful if subject to Title 17 at all—the same counterfactual inquiry that Congress expressly required in Section 602(a)(2) and (b) but did not mandate in Section 109(a). And it ignores this Court's careful distinction in *Quality King* between copies "lawfully made under this title" and copies lawfully made "under the law of some other country." 523 U.S. at 147.

Petitioner's effort to cabin its argument by focusing on respondent's role as the actual manufacturer of the watches at issue creates a further anomaly. Petitioner acknowledges (Pet. 14) that, "if a copyright owner gives * * * exclusive British publishing rights to Person B * * * , B's books are not lawfully made under the Copyright Act * * * because B did not receive U.S. rights from the copyright owner." Petitioner argues, however, that *all* copies made by the copyright owner itself are "lawfully made under this title" within the meaning of Section 109(a), even if (as in this case) they are manufactured and sold abroad under an agreement that limits resale to specific territories outside the United States. See, *e.g.*, Pet. 13 (arguing that "the phrase ['lawfully made under this title'] encompasses any copies made by the U.S. copyright holder, *regardless of*

location"); Reply Br. 2 (arguing that "a good is 'lawfully made under this title' if it is made by the U.S. copyright holder, at home or abroad"). Petitioner thus draws a sharp distinction between copies produced by the United States copyright owner itself and copies made by another entity with the copyright owner's authorization.

But that distinction is inconsistent with a basic principle of copyright law. "[T]he owner of copyright under [Title 17] has the exclusive rights to do *and to authorize*" the prerogatives that attend copyright ownership, including the reproduction of the copyrighted work. 17 U.S.C. 106 (emphasis added); see 17 U.S.C. 106(1). In determining whether particular copies were "lawfully made under this title," there is consequently no sound reason to distinguish between copies made by the copyright owner and copies made in like circumstances by another entity with the copyright owner's authorization. Moreover, as respondent notes (Br. in Opp. 10-12), the limitation that petitioner advocates could be easily circumvented by dividing the copyright-ownership and manufacturing functions among different corporate entities so that copies made abroad and intended solely for foreign distribution are made by an entity different from the copyright owner itself. Cf. *John Wiley & Sons, Inc.* v. *Kirtsaeng*, No. 08 Civ. 7834(DCP), 2009 WL 3364037, at *2 (S.D.N.Y. Oct. 19, 2009) (parent company retained U.S. copyright and assigned subsidiary right to print, publish, and sell foreign edition of textbook overseas).[5]

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[5] Although petitioner is correct (see Reply Br. 5) that the first sale doctrine in trademark law has been interpreted by regulation to extend to corporate affiliates under common control, see 19 C.F.R. 133.23(a)(2), that principle has not been endorsed in the materially different context of copyright law. Cf. *Sony Corp. of Am.* v. *Universal City Studios, Inc.*,

In enacting Section 602(a)(1), Congress authorized copyright owners to prohibit the importation of lawful and genuine copies—in effect, permitting United States copyright owners to distinguish between copies authorized for distribution in the United States and those destined for foreign markets. To be sure, under *Quality King*, the right conferred by Section 602(a)(1) does not extend to copies manufactured in the United States. But with respect to foreign-made copies like those at issue here, neither this Court's decision nor the text of the relevant statutory provisions suggests that a copyright owner's entitlement to protection against unauthorized imports should depend on the adoption of any particular corporate structure.

C. The Potential Adverse Policy Consequences That Petitioner Identifies Provide No Sound Basis For This Court's Review

1. Petitioner and its amici contend that the court of appeals' decision will mark the end of secondary markets, lead to higher unemployment, and encourage companies to move manufacturing overseas. See, *e.g.*, Pet. 21; Public Knowledge et al. Amici Br. 13, 20; Retail Industry Leaders Ass'n et al. Amici Br. 8-9. They express concern (*e.g.*, Pet. 23) that downstream retailers will hesitate to sell a variety of products for fear that the sale could be deemed infringing. They argue (*e.g.*, Pet. 21) that, given this Court's holding in *Quality King* that Section 109(a) excepts domestically-manufactured copies from Section 602(a)(1)'s ban on unauthorized importation, the court of appeals' denial of like treatment to copies made abroad "creates perverse incentives" for out-

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464 U.S. 417, 439 n.19 (1984) (noting the Court's consistent refusal to endorse analogies between copyright and trademark doctrines).

sourcing. They also emphasize (*e.g.*, Reply Br. 5-7) that, if copies made abroad are categorically excluded from Section 109(a)'s coverage, a United States copyright owner like respondent "could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland," Pet. App. 16a.

The potential implications of excluding foreign-made copies of a copyrighted work from Section 109(a)'s coverage are indeed troubling. For several reasons, however, those legitimate concerns do not warrant the Court's review in this case.

a. Some of the potential adverse policy effects that petitioner identifies are a direct and inherent consequence of Congress's decision in 1976 to expand Section 602's ban on unauthorized importation beyond piratical copies. Congress granted copyright holders the right to control importation of lawfully made copies and thus to segment domestic and foreign markets. The imposition by copyright holders of restrictions on importation may hinder the development of secondary markets and thereby increase prices for American consumers. The enactment of Section 602(a)(1) indicates, however, that Congress perceived the benefits of allowing market segmentation to outweigh its costs.[6]

b. Taken together, the decision below and this Court's ruling in *Quality King* create the anomalous result that a copyright holder can exercise its statutory

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[6] For example, book publishers have sometimes offered cheaper editions of their works in other (particularly undeveloped) countries, but their willingness to continue that practice might be reduced if the foreign editions could be imported into this country to compete with the higher-priced United States edition. See *John Wiley & Sons, Inc.*, 2009 WL 3364037, at *1-*2, *8.

right to bar unauthorized importation *only* when the relevant copies are made abroad. That differential treatment of domestic- and foreign-manufactured goods has no evident policy justification, and it could at least in theory provide an artificial incentive for outsourcing. There is no reason to suppose that Congress anticipated and intended that result. That anomaly, however, is not a sufficient reason to construe Section 109(a) as effectively nullifying Congress's clear policy choice (see 17 U.S.C. 602(a)(1)) that market segmentation be permitted. Congress of course remains free to amend the Copyright Act in order to adjust the balance between protection of copyright holders' prerogatives and advancement of other policy objectives.

c. Petitioner provides no basis for concluding that the most serious policy concerns described above have actually materialized. As petitioner acknowledges (Pet. 8), the phrase "lawfully made under this title" in Section 109(a) has been understood for a quarter-century to exclude foreign-made copies. And more than a decade has passed since this Court's decision in *Quality King*. Yet petitioner identifies no evidence that the differential treatment of domestic- and foreign-made copies has caused increased outsourcing of manufacturing operations, and it cites no case in which a copyright owner has sought to extract royalties at multiple stages of an otherwise lawful distribution chain within the United States.[7]

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[7] There are a number of explanations, both legal and practical, for the apparent absence of the downstream effects that petitioner hypothesizes. As respondent notes (Br. in Opp. 23), downstream domestic distributors are often the copyright owner's own customers, and "it would be a curious business strategy" for a copyright owner to sue its own customers for infringement. Moreover, in many situations copyright owners might be deemed to have granted implied licenses to

d. This suit does not resemble the extreme hypothetical cases posited by petitioner and its amici, and it therefore provides an unsuitable vehicle for this Court to determine how such cases should be resolved. Respondent has not sought to collect multiple royalties for the same copies, prevent downstream purchasers from alienating title, or impose minimum-price or other obligations that run with the goods in commerce. Cf. *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 341 (1908). Indeed, the court of appeals specifically reserved the question whether (as prior Ninth Circuit decisions had held) "parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred." Pet. App. 16a; see *id.* at 17a. And because respondent is a Swiss corporation, there is no reason to suppose that it manufactured its watches abroad as a ploy to avoid the application of Section 109(a).

2. Petitioner further contends (Pet. 22) that the policy concerns it identifies are "exacerbated because it is easy for copyright holders to apply a copyrighted symbol, label, or package to almost any good offered for sale in the United States." This case, however, comes to the Court in an interlocutory posture, and petitioner's copyright-misuse defense remains to be adjudicated on remand. Petitioner has challenged, as a misuse of copy-

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downstream retailers. Cf. *Disenos Artisticos E Industriales, S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 382 (9th Cir. 1996) (explaining that "sales without restriction on export into the United States" give rise to implied license to import and preclude liability under Section 602(a)(1), which requires importation "without the authority of the owner"). Default rules of commercial law may also provide protection in the form of indemnification against defective title and third-party copyright infringement claims in the sale of goods. See, *e.g.*, U.C.C. § 2-312 (2006) (implied warranty of title and implied warranty against infringement).

right, respondent's artifice of affixing a tiny copyrighted logo to its luxury wristwatches in order to invoke Section 602(a)(1). See C.A. E.R. 117-119 & n.1; cf. *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488, 491-494 (1942) (discussing patent misuse).

The "principal function" of copyright law "is the protection of original works, rather than ordinary commercial products that use copyrighted material as a marketing aid." *Quality King*, 523 U.S. at 151. Although the doctrine of copyright misuse is both controversial and rarely invoked, it has been recognized by at least one court of appeals. See *Lasercomb Am., Inc.* v. *Reynolds*, 911 F.2d 970, 973-977 (4th Cir. 1990). The United States takes no position on the appropriate resolution of petitioner's copyright-misuse defense. To the extent that the particular type of copyrighted material at issue here raises distinct policy concerns, however, those concerns are best addressed on remand under a legal theory specifically targeted at that alleged abuse. Cf. *Quality King*, 523 U.S. at 140 (explaining that, "[a]lthough the labels" at issue in that case "ha[d] only a limited creative component, [the Court's] interpretation of the relevant statutory provisions would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books").

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

ELENA KAGAN
Solicitor General

TONY WEST
Assistant Attorney General

MALCOLM L. STEWART
Deputy Solicitor General

MELISSA ARBUS SHERRY
Assistant to the Solicitor General

SCOTT R. MCINTOSH
MARK R. FREEMAN
Attorneys

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AMICUS CURIAE BRIEF

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IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR EBAY INC. AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

STEVEN A. HIRSCH
Counsel of Record
MICHAEL S. KWUN
BENJAMIN W. BERKOWITZ
KEKER & VAN NEST, LLP
710 Sansome Street
San Francisco, CA 94111
(415) 391-5400

Counsel for Amicus Curiae

223405

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

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INTEREST OF AMICUS CURIAE[1]

This brief is respectfully submitted by eBay Inc. eBay created and currently operates the world's largest online marketplace, bringing together buyers and sellers at the local, national and global levels. Today, eBay's 88 million active users include some 25 million sellers, engaged in transactions across 50,000 unique categories with the richest and deepest inventory of products ever assembled. Founded in 1995, eBay recognized that the Internet would allow individuals and companies interested in a particular product or service to readily identify and locate each other and thus facilitate trading among those individuals and companies. As result, eBay succeeded in establishing a $60 billion market that benefits consumers and promotes competition. At any given moment, an average of 175 million items are available for sale on eBay across a multitude of formats that includes auction-style, fixed price and classified ads. eBay is recognized the world over as the place to find a great deal on new, used and vintage items. Throughout its history, eBay has served individual buyers and sellers along with businesses ranging in size from part time sole proprietorships to

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1. The parties have consented to the filing of this brief. Counsel of record for both parties received notice at least 10 days prior to the due date of the intention of eBay to file this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than eBay or its counsel made a monetary contribution to its preparation or submission.

some of the most recognized household brand names and everything in between. Businesses like eBay, therefore, have an enormous global economic and social impact. eBay is concerned that the Ninth Circuit's holding that the first-sale doctrine does not apply to imported goods manufactured abroad could have a detrimental effect on the ability of buyers and sellers of secondary-market goods to engage in commerce in the United States.

eBay's customers buy and sell a wide variety of goods manufactured domestically and abroad. These buyers and sellers need confidence that lawfully produced and purchased goods may be resold free from unknown and unknowable claims of copyright infringement. The Supreme Court's interpretation of the first-sale doctrine, as enunciated in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998), protects the rights of individuals to acquire and resell goods produced by the copyright owner regardless of whether the goods were manufactured in the United States or imported from abroad. The court of appeals' decision purports to rewrite the holding of *Quality King* to limit it to its facts and creates legal uncertainty for anyone who participates in the sale of secondary-market goods.

SUMMARY OF ARGUMENT

This case raises the question whether copyrighted goods manufactured abroad by United States copyright owners are entitled to greater downstream protection than those manufactured domestically. The court of appeals believed that owners of United States copyrights whose copyrighted products are manufactured abroad are entitled not only to the profit from the first sale of those products, but also to additional rights over the distribution of their products in secondary markets. The decision of the court of appeals conflicts with the plain statutory text of the Copyright Act and this Court's decision in *Quality King*. The rule announced by the court of appeals could subject sellers of secondary-market goods to expanded liability and litigation risks, impose significant barriers to functioning international markets, raise prices of first-sale and secondary-market goods for consumers, and create artificial incentives for copyright owners to manufacture goods abroad and then use U.S. copyright law to control the downstream distribution of those goods. The court of appeals' decision also misapprehends the extraterritorial limits of U.S. copyright law and, in doing so, further undermines the efficiency of the Internet as a global marketplace.

ARGUMENT

The court of appeals' opinion expands the reach of copyright law to permit copyright owners to control downstream sales and transfers of goods, ignoring the fundamental purpose of copyright law, the statutory text of the Copyright Act, and over a century of Supreme Court precedent. As this Court stated in 1908,

"the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the [copy] shall be sold at retail by future purchasers, with whom there is no privity of contract." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908). In this case, the court of appeals' misinterpretation of the first-sale doctrine threatens to mutate copyright law into a mechanism for corporations to control the downstream distribution of manufactured goods. The court of appeals forgot that copyright law is intended to protect and promote original works by authors, not to provide a mechanism for limiting future transfers of everyday mass-manufactured goods. Its ruling will have significant consequences for domestic and international markets.

I. The Court Of Appeals' Misinterpretation Of The First-Sale Doctrine Conflicts With The Holding Of *Quality King*.

The court of appeals held that the first-sale doctrine is a defense to copyright infringement only where the disputed copies of a copyrighted work were either made or previously sold in the United States with the authority of the copyright owner. Pet. App., 2a-3a. This holding lacks foundation in the history or statutory text of the first-sale doctrine, as codified in 17 U.S.C. § 109(a), and is contrary to this Court's decision in *Quality King Distributors, Inc. v. Lanza Research Int'l Inc.*, 523 U.S. 135 (1998). Moreover, by adopting one statement contained in a single-justice concurrence over the eight-justice majority opinion in *Quality King*, creates ambiguity and tension with the law of the land.

The first-sale doctrine was first endorsed by this Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). In that case, the Court stated: "It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it." 210 U.S. at 350. The Court's decision in *Bobbs-Merrill* followed the dominant Anglo-American rule prohibiting restraints on the alienation of chattels. The courts of both the United States and England had held that, where a copyright owner had sold an object embodying a copyrighted work, (1) normal rules against a seller imposing restraints on alienation of that chattel would apply, and (2) the copyright owner/seller would have to look to contract law, not copyright, for claims against purchasers of the chattel. *See, e.g., Henry Bill Publishing Co. v. Smythe*, 27 F. 914, 923-25 (S.D. Ohio 1886); *Murray v. Heath*, 1 Barn. & Adol. 804 (1831); *see also* H.R. Rep. No. 987, 98th Cong. 2d Sess., 2 (1984) ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property.").

The first-sale doctrine later was codified by Congress, and the current statute states in part that "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord . . . ." 17 U.S.C. § 109(a). Neither § 109(a) nor earlier codifications were intended by Congress to "limit [the first-sale doctrine's] broad scope." *Quality King*, 523 U.S. at 152. Rather, "'[s]ection 109(a) restates and confirms' the first-sale doctrine established by prior case law." *Id.* at n.27 (quoting H.R.

Rep. No. 1476, 94th Cong., 2d Sess., 79 (1979)); *see also* S. Rep. No. 473, 94th Cong., 1st Sess., 71 (1975) (same)); H.R. Rep. No. 2222, 60th Cong. 2d Sess., 28-29 (1909) ("Section 41 is not intended to change in any way existing law . . . . [I]t would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale"). Neither the text nor the legislative history of § 109(a) evinces any intent to discriminate between goods manufactured domestically and those manufactured abroad.

That distinction—which appears never to have concerned Congress—was laid to rest by this Court in *Quality King*. There, this Court answered affirmatively the question "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." 523 U.S. at 138. The Court did not distinguish between goods manufactured domestically and those outsourced to foreign manufacturing plants. Nowhere in the Court's opinion did the Court suggest that greater copyright protection would be afforded to U.S. copyright owners who moved their manufacturing processes abroad. Instead, the Court held that *all* imports are subject to the first-sale doctrine.

One concurring justice suggested that goods manufactured abroad might be entitled to greater copyright protection than goods manufactured domestically. In a two-sentence concurrence, Justice Ginsburg indicated that she was joining the majority opinion insofar as it applied only to domestically manufactured goods sent abroad and then, later, imported back into the United States. *Quality King*,

523 U.S. at 154. No other justice joined in this concurrence, and thus Justice Ginsburg's concurrence does not control. *See, e.g.*, *Maryland v. Wilson*, 519 U.S. 408, 413 (1997) (two-justice concurrence did not constitute binding precedent). By phrasing its decision in terms of importation into the United States, the majority opinion unambiguously intended the first-sale doctrine to apply not only to goods manufactured domestically, but also to those manufactured abroad, which likely constitute the vast majority of goods imported into the United States. As the Court stated: "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152.

The first sale doctrine serves a critical function in the copyright scheme and should be protected by this Court. It balances the intangible property interests of copyright owners against the tangible property interests of purchasers. *See Joseph P. Liu, Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 Wm. & Mary L. Rev. 1245, 1289-94 (2001). Were it not for the first-sale doctrine, the everyday activities of secondhand bookstores would infringe a copyright owner's distribution right, as would selling a book at a garage sale. The court of appeals' opinion threatens to create liability for all of these activities whenever the first sale of foreign-manufactured goods happens to have occurred abroad. This Court must not allow the court of appeals' decision to remain the law.

II. The Limits Of Extraterritoriality Apply To Enforcement, Not To Defenses.

The court of appeals justified its decision to restrict the first-sale doctrine based on the presumption against extraterritoriality recognized by this Court in *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909). But the court of appeals misunderstood these exterritorial limits. While United States copyright law is bounded by geographic limits, these prevent copyright owners for suing for the copying of U.S. copyrighted goods that occurs abroad. Rather than apply extraterritoriality principles as a limit to the *enforcement* of U.S. copyright laws, the court of appeals in this case instead misapplied those principles to limit *defenses* to infringement. In doing so, the court of appeals appears to have stripped hundreds of millions of individuals in the United States of the right to sell or even give away goods that they lawfully acquired but which may be or contain copyrighted works manufactured abroad.

Where courts have found that the Copyright Act lacks extraterritorial effect, this has generally been understood to mean that the Act does not *punish* infringements that occur entirely outside the United States. *See Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1093 (9th Cir. 1994) (*en banc*). In other words, the extraterritoriality limit is a limit on *enforcement*. As one court recently held in the patent-law context, "the concept of 'extraterritorial effect' refers to *imposing liability* under United States law for conduct occurring outside the United States. Holding that exhaustion is triggered by the authorized

foreign sale of a patented product *does not impose liability* of this sort, and thus *does not amount to giving extraterritorial effect* to the patent law." *LG Elecs, Inc. v. Hitachi, Ltd.*, No. C 07-6511 CW, 2009 WL 667232, at *11 (N.D. Cal. March 13, 2009) (emphases added).

This case, however, does not involve a claim that Congress attempted to "enforce its laws beyond the territorial boundaries of the United States." *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991). eBay does not dispute that U.S. copyright law cannot be used to create liability for copies made and sold abroad. In the underlying case, the first-sale doctrine was raised as a *defense to enforcement in the United States* where the facts giving rise to the defense occurred abroad. This case does not involve enforcement of the Copyright Act in any foreign country.

The question that this case presents is only whether transactions in foreign countries can have legal consequences for transactions involving United States' buyers and sellers. The answer is yes. When Congress drafted the Copyright Act, it anticipated that acts occurring abroad would have legal consequences for the rights of copyright owners. For example, § 104 confers U.S. copyright "protection" where works are published in foreign nations that are parties to the Berne Convention, the Universal Copyright Convention, or another "copyright treaty," or where the President finds that the foreign nation grants reciprocal copyright protection for U.S. works. 17 U.S.C. § 104(b). Many other parts of the Copyright Act similarly refer to acts and events occurring in foreign nations.

Thus, the Copyright Act:

- Provides that transfers of copyright ownership may be "executed in a foreign country." 17 U.S.C. § 204(b)(2);

- Establishes priorities between conflicting transfers of copyright ownership executed "outside the United States." *Id.*, § 205(d);

- Provides for the placement of copyright notices on works "published in the United States or elsewhere." *Id.*, §§ 401(a) and 402(a); and

- Exempts foreign works from the requirement that copyright be registered before commencing infringement action in U.S. court. *Id.*, § 411(a).

Conversely, § 201(c) of the Copyright Act prevents some foreign acts from having the legal consequence of transferring or extinguishing rights under a U.S. copyright. Even so, Congress did not attempt to list every transaction or event in a foreign country that might have legal significance within the United States. For example, a U.S. copyright owner while residing abroad may authorize the publication of a book or the performance of a play in the United States. Similarly, while on foreign soil, an author may terminate transfers and licenses of U.S. rights to others. *See* 17 U.S.C. § 203(a) and (b)(5). A first sale by the copyright owner is also a transaction that may occur abroad, but have legal effect in the United States. As discussed above, the policy against restraints on alienation of goods is at the root of § 109(a), and this policy applies equally whether a U.S. copyright owner has sold his goods in the United States or abroad.

III. The Court Of Appeals' Decision Could Impede Commerce.

Manufacturers of mass-market products have "waged a full-scale battle in legislative, executive, and administrative fora" for regulations that would grant them power to control the downstream importation of secondary market goods into the United States economy. *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 295 (1988) (Brennan, J., concurring in part and dissenting in part). Yet Congress has largely rejected these efforts, and manufacturers have achieved only limited success in using trademark law as a sword against parallel importers. *See* 2 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright*, § 8.11[B][4] (2009). As a result, manufacturers like Omega are now turning to U.S. copyright law as a mechanism for imposing controls over downstream purchasers of their goods. This misuse of copyright would have dramatic and negative market effects and would empower foreign manufacturers at the expense of American retailers and consumers.

If left to stand, the court of appeals' decision permits manufacturers to impose artificial barriers on these secondary markets by arguing violations of copyrights. But copyright law exists to promote creative and useful original works, not to permit a stranglehold over downstream sales of manufactured goods. "In construing the [Copyright Act], . . . we must remember that its principal purpose was to promote the progress of the 'useful Arts,' by rewarding creativity, and its principal function is the protection of original works, rather than ordinary commercial products that use

copyrighted materials as a marketing aid." *Quality King*, 523 U.S. at 151 (citation omitted) (quoting U.S. Const., Art. I, § 8, cl. 8).

This case has commercial consequences for U.S. retailers and individuals who sell genuine goods. Normally, a downstream merchandiser may rely on the "good-faith purchaser for value" rule when he or she acquires merchandise for resale. That rule protects the free transferability of all genuine goods. *See* U.C.C. § 2-403. It "allows people safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous predecessors in the chain of distribution." *Johnson & Johnson Prods. v. Dal Int'l Trading Co.*, 798 F.2d 100, 104 (3d Cir. 1986). Congress preserved the normal rules relating to the transfer of personal property, both by enacting § 109(a) and by declaring that ownership of rights under a copyright is "distinct from ownership of any material object in which the work is embodied." 17 U.S.C. § 202. But manufacturers will no doubt argue that the court of appeals' decision imposes copyright liability on sellers if it turns out that genuine goods embody copyrighted works that were manufactured abroad and were not sold first in the United States. Such an outcome would undermine the transferability of personal property.

In addition, the Ninth Circuit's decision potentially imposes burdensome search costs on sellers and buyers who may need to investigate (1) whether goods embody copyrighted works, (2) if so, whether the copyrighted works were manufactured abroad, (3) if so, whether the goods were previously sold in the United

States, and (4) if so, whether that sale in the United States was authorized by the copyright owner. If, given the conflicting decisions, a seller believes he or she may need to negotiate with the copyright owner if he or she wants to sell (or even give away) the item such sellers are even more burdened and commerce further impacted. The potential result will be a secondary market burdened by inefficient overhead costs. Some sellers will be neither willing to bear the high search and negotiation costs, nor to subject themselves to the increased risks of litigation.

These are not theoretical concerns. Virtually any mass-produced product may be manufactured to include a copyrighted design element. Retailers and individuals regularly purchase goods from distributors who are not the U.S. copyright owner. In today's international economy, retailers regularly purchase imported products where the U.S. copyright owner or its designee is not the importer. If a seller may be sued for selling genuine goods acquired after a first sale has occurred abroad, this could place significant burdens on international and domestic commerce, raise prices, and create enormous economic waste.

Nowhere has Congress expressed any intent to impose these anti-commercial and anti-consumer rules. To the contrary, as discussed above, Congress's adoption of the first-sale doctrine from the common law was intended to avoid such restraints on the free alienation of genuine products.

If upheld, however, the Ninth Circuit's interpretation would create a two-tiered system under

which copies that have been manufactured and distributed abroad receive greater protection than identical copies manufactured and distributed domestically. Under such an interpretation, once a manufacturer has sold a product containing copyrighted material in this country, the first-sale doctrine would allow any subsequent purchaser to resell the product at any price; but if an identical product is manufactured and first sold abroad, one could have a different result.

Absent any indication that Congress intended such unusual restrictions on free trade and commerce, this Court should not permit the court of appeals to impose them based on misconceived notions about "extraterritoriality." As noted above, manufacturers have failed in their attempts to use trademark and customs laws to eliminate secondary markets. The present attempt is even more misguided. Trademark and customs laws, at least, are primarily grounded in economic concerns, while the desire to control the resale of goods manufactured abroad has nothing to do with the Copyright Act's primary goal of motivating creative activity. To allow manufacturers an avenue to argue that copyright law furthers a private commercial strategy of controlling the channels of commerce for their products would subvert the true purposes of the Copyright Act.

Here, a U.S. copyright owner is "seeking to protect itself from its own competition." *K-Mart*, 486 U.S. at 301 (Brennan, J., concurring and dissenting). Because the copyright owner itself controls the manufacture and first sale of its products, it has "a panoply of options," including private contractual remedies, for controlling its channels of distribution. *Id.* at 302. But it cannot use

the Copyright Act to implement its market-allocation scheme. "While securing compensation to the holders of copyrights was an essential purpose of [the Copyright] Act, freezing existing economic arrangements for doing so was not." *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S 394, 414 n.15 (1974).

CONCLUSION

Amicus curiae eBay urges the Court to grant the petition and reverse the judgment of the court of appeals.

Respectfully submitted,

STEVEN A. HIRSCH
Counsel of Record
MICHAEL S. KWUN
BENJAMIN W. BERKOWITZ
KEKER & VAN NEST, LLP
710 Sansome Street
San Francisco, CA 94111
(415) 391-5400

Counsel for Amicus Curiae

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AMICUS CURIAE BRIEF

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COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF *AMICI CURIAE* ENTERTAINMENT MERCHANTS ASSOCIATION AND NATIONAL ASSOCIATION OF RECORDING MERCHANDISERS IN SUPPORT OF PETITIONER

KATHLEEN R. HARTNETT
SPIVA & HARTNETT LLP
1776 Massachusetts Avenue, NW
Suite 600
Washington, DC 20036
(202) 785-0601

JOHN T. MITCHELL
Counsel of Record
INTERACTION LAW
1629 K Street, NW
Suite 300
Washington, DC 20006
(202) 415-9213

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
OR CALL COLLECT (402) 342-2831

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INTEREST OF *AMICI CURIAE*

Entertainment Merchants Association, Inc. ("EMA"), is the major trade association representing retailers and distributors in the home video and video game industry. National Association of Recording Merchandisers, Inc. ("NARM"), is the major trade association representing retailers and distributors of sound recordings. They respectfully submit this brief as *amici curiae* in accordance with Supreme Court Rule 37.[1]

The members of EMA and NARM distribute, through sale and rental, lawfully made copies of "audiovisual works" ("home videos" in the DVD and Blu-ray disc format) and "video games" (including "console" games for use in proprietary systems and "PC games" playable in a variety of personal computers). *Amici*'s members also sell lawfully made "phonorecords," consisting of music CDs, vinyl record albums, and flash media. In addition, members of *Amici* sell hardware such as cell phones, portable media players and personal digital assistants "pre-loaded" with audiovisual works, computer programs, and sound recordings, meaning that these devices,

---

[1] Petitioner Costco Wholesale Corporation is not a member of either EMA or NARM. The parties were provided with timely notice of the intent to file this brief, and they have consented to the filing of this brief. Counsel for a party did not author this brief in whole or in part. No person or entity other than *Amici Curiae*, their members, or their counsel made a monetary contribution to the preparation and submission of this brief.

too, are "copies" and "phonorecords" as those terms are defined and used in the Copyright Act. *See* 17 U.S.C. §§ 101, 106(1), 106(3) and 109.

In addition to name brand music, video and video game specialty chains, the members of NARM and EMA include global mass merchants as well as single-store specialty shops. Members sell or rent from both physical stores and "online" Internet stores. Members sell both pre-recorded media as well as licenses to reproduce ("download") works lawfully onto the consumer's own media. Such licensed reproductions may be made from another copy or phonorecord, or from an Internet-accessed server (perhaps on the retailer's own network, for which it is the Internet service provider).

Amici's members purchase new and used copies and phonorecords in the free flow of commerce. Such purchases are often from third parties and not in privity with the copyright holder, be it from independent distributors, "sideways selling" from a competitor, or even buying back used copies and phonorecords from their own customers. Members frequently do not know, nor could they reasonably determine, where these copies were manufactured.[2]

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[2] Many states require that the "true name and address of the manufacturer" appear on the product or packaging, but that information only identifies the manufacturer, and not the place of manufacture. *See, e.g.*, Fla. Stat. ch. 540.11(3)(a)(3) (2007).

All of *Amici*'s members depend on the first sale doctrine and § 109 of the Copyright Act for their freedom to compete vigorously with each other in the broadest possible dissemination of creative works to the public, with the broadest possible product selection, and at the cheapest possible prices. Every day, the commercial activities of *Amici* invoke the wisdom of the House Committee on Patents of the United States Congress, which, in 1909, recommended codification of this Court's recognition of the first sale doctrine in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908):

> Your committee feel that it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale.

H.R. Rep. No. 60-2222, at 28-29 (1909).

Notably, the businesses of *Amici*'s members are at the heart of copyright law. Unlike the distribution of Omega brand watches, distribution of copies of books, music, movies and video games by *Amici*'s members involves the "core of intended copyright protection," *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994). Indeed, as the Court recognized in *Quality King Distributors, Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), although the L'anza brand shampoo labels at issue in that case "have only a limited creative component," the Court's ruling "would apply equally to a case involving more familiar copyrighted materials such as sound recordings or

books." *Id.* at 140. The Ninth Circuit disregarded this Court's careful attention in *Quality King* to the ramifications of its ruling for the "core of intended copyright protection." Instead, the Ninth Circuit examined the issues penuriously (and erroneously), from the perspective of a manufacturer's ability to leverage copyright law to enforce a global price discrimination strategy over common goods.

Amici's members have a wealth of experience with myriad business models based partially or entirely on the entitlement conferred upon owners of lawfully made copies and phonorecords by virtue of 17 U.S.C. §§ 202 and 109. It is the expressive works embodied in these copies and phonorecords that *Amici*'s customers seek out in their own right; such expression is not merely incidental to telling the time of day or washing hair. *Amici*'s members also are engaged in sublicensing consumers to reproduce works into their own copies and phonorecords, and therefore have an interest in preserving the § 109 rights of their customers. Finally, *Amici* have a history of engagement in legislative and public policy debates concerning the proper scope of § 109.

ARGUMENT

Retail competition and innovation has thrived under the first sale doctrine. In misinterpreting § 109 and gutting the first sale doctrine with respect to foreign-manufactured goods, the Ninth Circuit has

stretched judicial reasoning beyond its limit, and has contravened the text of the Copyright Act and this Court's precedent. According to the Ninth Circuit, and directly contrary to the first sale doctrine as it has been understood, a copyright holder may continue to exercise control after the first sale by simply outsourcing the manufacturing operation to a foreign country. *Amici* urge this Court to grant the Petition so the Court may examine and correct the Ninth Circuit's misinterpretation of § 109(a).

Review by this Court is urgently needed because the Ninth Circuit's ruling threatens to irreparably harm *Amici*'s members, the rights of their customers, and the objectives of the Copyright Act.

> Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible.

Fogerty v. Fantasy, Inc., 510 U.S. 517, 527 (1994). In demarcating those boundaries, *Amici* respectfully submit that the rights of owners of copies and phonorecords must also be weighed, precisely because the Copyright Act itself gives owners of lawfully made copies rights separate from and superior to those of the copyright owners. *See, e.g.*, 17 U.S.C. § 202 ("Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied"); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 447 (1984) ("[T]he

definition of exclusive rights in § 106 . . . is prefaced by the words 'subject to sections 107 through [122].'"); *accord* H.R. Rep. No. 94-1476, at 61 (1976) ("[E]verything in section 106 is made 'subject to sections 107 through [122]' and must be read in conjunction with those provisions.").

I. THE NINTH CIRCUIT'S DECISION THREATENS TO IRREPARABLY HARM *AMICI*'S MEMBERS AND THEIR CUSTOMERS BY PREVENTING WIDELY ACCEPTED MEANS OF DISTRIBUTING COPIES AND PHONORECORDS

A. The Ninth Circuit's decision baselessly threatens retailers' well-settled means of distributing copyrighted content

Amici's members generate billions of dollars of annual revenue from distribution of copies and phonorecords, or the licensing of reproductions. Their businesses are at risk if the Ninth Circuit's interpretation of "under this title" in § 109(a) takes hold, undoing 150 years of first sale doctrine jurisprudence upon which *Amici*'s members depend. Now, according to the Ninth Circuit, the mere shift of manufacturing operations abroad is all that it takes for a copyright owner to nullify the first sale doctrine and § 109(a).

A review of business models employed by *Amici*'s members demonstrates the real threat posed by the Ninth Circuit's decision to established and legitimate commerce in expressive works.

1. Selling any copy would require a license

The simple act of selling a copy or phonorecord made by or under the authority of the copyright holder would require a license from the copyright holder – simply because such a copy or phonorecord was manufactured abroad. Copyright holders could license – or withhold licenses – on a whim. A disfavored retailer, be it because of its discount pricing, product reviews, or merely to enforce an "exclusive" arrangement with a competing retailer, could be prohibited from selling specific copies or phonorecords.

Although copyright holders sometimes grant "exclusives" to certain retailers, prior to the Ninth Circuit's ruling, and pursuant to the first sale doctrine, § 109, and this Court's ruling in *Quality King*, any competing retailer remains free to purchase copies or phonorecords from the exclusive retailer and offer them for resale. Under the Ninth Circuit's reading, however, such copies, if made abroad, would not be "lawfully made under this title," § 109 rights would not apply, and the resale would be infringing.[3]

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[3] Curiously, due to the decision below, the law of the Ninth Circuit now holds that if the copyright holder sells any of the foreign-manufactured copies in the United States, those copies are once again subject to § 109 despite the fact that, under its own interpretation, § 109(a) cannot apply because they were not made here. Pet. App. 15a-16a.

2. Copyright holders could eliminate competition from secondary sales

Some copyright holders chafe at the growing market for used copies and phonorecords.[4] Under the Ninth Circuit's holding, manufacturing abroad would empower copyright holders to prohibit all secondary sales, even though many people depend on them. *Amici* estimate the market for resale at retail of used copies to comprise as much as 15% percent of all sales of video games and substantial portions of total sales of DVDs. Independent music retailers estimate sales of used CDs at about 20% of all sales, on average, with some stores ranging as high as 50%. This volume of commerce does not include non-commercial redistribution by lending, trading or gifting. All such commerce is jeopardized by the Ninth Circuit's ruling.

3. Copyright holders could prohibit rental

This Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), ushered in the age of consumer-owned or rented copies of motion pictures. Since that time, copyright holders

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[4] *See, e.g.*, Mike Anderiesz, *Publishers Rankled By Secondhand Games Boom*, THE GUARDIAN (Jan. 3, 2006), at http://www.guardian.co.uk/technology/2006/jan/19/games.guardianweeklytechnologysection2; David D. Kirkpatrick, *Online Sales Of Used Books Draw Protest*, THE NEW YORK TIMES (Aug. 10, 2002), *available at* http://query.nytimes.com/gst/fullpage.html?res=9400e0dc113df933a25757c0a9649c8b63.

have variously attempted to prevent or impair home video rental, be it by contractual agreements to restrain such trade, exclusive sales to non-renting companies, or just labeling copies of videos as "not for rental." In each instance, the first sale doctrine and § 109 rebuffed such attempts.[5] Now, the Ninth Circuit has provided a road map of foreign manufacturing for copyright holders to prohibit rental (or extract additional fees for rental), despite that rental has long been permitted under §§ 202 and 109. Neither the text of the Act or this Court's past reasoning requires this undesirable result.

4. Gifting would be at risk

Amici's members encourage purchases of copies and phonorecords as gifts. NARM, for example, sponsored the "Give the Gift of Music" campaign to encourage consumers to buy phonorecords for the sole purpose of redistributing them as gifts. *Amici* doubt

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[5] In a December 19, 1984 unpublished memorandum seeking a legislative compromise before the 1985 legislative session, Jack Valenti, President of the Motion Picture Association of America, proposed to Weston Nishimura, President of the Video Software Dealers Association (EMA's predecessor), that in exchange for supporting a repeal of § 109 for video rental, the studios would support an obligation to permit rentals within 30 days of the first sale. However, copyright holders at the time envisioned retail video rental prices equivalent to the price of one or more first-run movie tickets. The studios eventually abandoned their effort to control the rental market by legislation and, today, movies still rent for as little as 99 cents.

that copyright holders want to restrict gift purchases. However, the Ninth Circuit's ruling means that consumers purchasing foreign-made phonorecords would need either to ensure that their phonorecord came with a "license to re-distribute by gift" or to take the risk of making a gift as "fair use," 17 U.S.C. § 107, as such gifting would no longer be protected under § 109. Such a result makes clear how far the Ninth Circuit strayed in this case from Congress's intent and this Court's admonishment to "read literally" the "unambiguously" expressed text of § 109. *Quality King*, 523 U.S. at 145.

5. Consumer-direct sales of used copies and phonorecords could be affected

The Internet has increasingly blurred the lines between commercial sales of used copies and sales by average consumers. Ordinary consumers can use many Internet-connected services, including services hosted by *Amici*'s members, to offer used or even "new condition" second-hand copies and phonorecords for sale to the public. Until now, the law concerned itself only with whether those copies were non-infringing. Under the Ninth Circuit's holding, sellers also now would need to determine whether the place of manufacture was on United States soil, regardless whether the copy or phonorecord is the genuine article that the copyright holder made and placed into the stream of commerce. Copyright holders already have filed a number of lawsuits against individual sellers (or the services used by these sellers), attempting to prevent

them from competing with the copyright holder's preferred retail price. In these suits, the copyright holders manufacture and sell the article abroad, often at a much lower price, and then argue that § 109 does not apply when American consumers are offered those same copies at a bargain price.[6] The Ninth Circuit's ruling will only embolden these lawsuits targeting ordinary consumers engaging in sales that should be protected under a proper interpretation of § 109.[7]

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[6] *See, e.g., Pearson Education, Inc. v. Valore, Inc.*, 1:07-cv-01348-JG-JMA, *consent judgment* (E.D.N.Y. Dec. 17, 2007) (prohibits Valore, operator of the valorebooks.com website, from allowing anyone to sell books "manufactured abroad and intended for sale abroad"); *Pearson Education, Inc. v. Liao*, 2008 U.S. Dist. LEXIS 39222 (S.D.N.Y. May 13, 2008) (ruling against a *pro se* defendant on an unopposed motion for summary judgment, the court followed the Ninth Circuit's interpretation *carte blanche*: "because a first sale defense only applies to the sale of copies that are 'lawfully made under this title,' 17 U.S.C. § 109(a), the resale in the United States of copies manufactured outside the United States is not protected under the terms of the statute," *id.* at *11); *Pearson Education, Inc. v. Allen Air Conditioning*, 1:08-cv-06152-RJH (S.D.N.Y. filed July 3, 2008) (seller of textbooks the publishers printed in China sued for undercutting higher prices charged to American students).

[7] The Register of Copyrights has observed, "competition policy is viewed as one of the underlying bases for the first sale doctrine." DMCA SECTION 104 REPORT, at 21, U.S. Copyright Office (August 2001).

6. Consumers would have to be wary of where they happen to be when making a licensed reproduction

Copyright holders often license "through to the consumer" the right to reproduce a copy or phonorecord of the work, typically onto a computer hard drive, video game player, cell phone or portable media player. These licenses sometimes involve reproductions from remote copies to local media, such as the practice of "downloading" licensed reproductions using the Internet, a practice that is experiencing significant commercial growth. Also gaining in popularity is the practice of distributing a copy or phonorecord along with a license to reproduce a second copy.[5] Similarly, some sound recordings come with a "second session" – a music file in the popular MP3 format that can be copied directly to another medium rather than "ripped" from the uncompressed file.

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[5] For example, the Advanced Access Content System Licensing Administrator (AACS-LA) recently announced that the new Blu-ray format for high definition movies distributed by *Amici*'s members will require all discs to enable the consumer to make at least one "managed copy" – a licensed reproduction of the motion picture. "The requirement that studios include managed copy on Blu-ray discs means that virtually all Blu-ray discs released after the first quarter of 2010 will offer consumers the ability to make one full-resolution backup copy, AACS-LA chair Michael Ayers said." Jennifer Netherby, *Managed copy due next year*, VIDEO BUSINESS (June 11, 2009), http://www.videobusiness.com/article/CA6664863.html?nid=2705.

The Ninth Circuit's decision undercuts these new business models, which promise to inject new life into copies and phonorecords, giving them greater appeal than copies that have been illegally reproduced from unlicensed sources. Under the Ninth Circuit's decision, if a consumer invokes the licensed "second session" or "managed copy" reproduction right while outside of the United States, the device or storage medium onto which the customer reproduced it is placed under the distribution control of the *licensor*, even if the *original* disc containing the MP3 file or "managed copy" was made and sold in the United States.

B. The Ninth Circuit's decision jeopardizes consumers' full use and enjoyment of their purchased property that the first sale doctrine heretofore protected

"Owners" of lawfully made copies include not only merchants like *Amici*'s members, but also customers of merchants. And customers have come to depend on the first sale doctrine and § 109 for transferring ownership of copies of works in a variety of ways. Such transfers occur through yard sales, gifts, informal trading, donations to charity, purchases from the local library's surplus books, testamentary transfers of a decedent's estate, and so on.

In the commercial context, the first sale doctrine adds value to a customer's initial purchase. The new copy or phonorecord is made intrinsically more

valuable because there is considerable value in the right to subsequently transfer ownership or possession to others. Whether it is the economic advantage of "trading in" a used video game or music CD for a new one, the tax advantage of making a charitable donation, or simply the intangible benefit derived from lending or giving a copy or phonorecord to a friend, the first sale doctrine directly serves the purpose of copyright by fueling the demand for and dissemination of copies and phonorecords. Competition from secondary markets also keeps prices for new products lower.

Contrary to the settled operation of the first sale doctrine and § 109, the Ninth Circuit's ruling sets forth a legal minefield for customers seeking to participate in secondary markets: customers must learn where a purchased copy was made before transferring it, or seek a pre-license to redistribute it to others before purchasing it.

II. THE NINTH CIRCUIT'S REASONING AND CONCLUSION ARE IRRECONCILABLE WITH THAT OF THE THIRD CIRCUIT

In addition to transgressing the plain terms of the Copyright Act and this Court's decision in *Quality King*, *see* Pet. at 9-20, the Ninth Circuit's decision is irreconcilable with the reasoning of *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). The *Sebastian* Court noted the first sale doctrine's "origins in the common law aversion to

limiting the alienation of personal property." *Id.* at 1096. *Sebastian* also elaborated upon the economic purpose for the first sale doctrine, explaining that "the ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may be said that the copyright proprietor has received his reward for its use." *Id.* at 1096-96 (quoting *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964), and citing *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963)).

Like *Quality King*, *Sebastian* did not view § 602(a) as creating a right in addition to the distribution right in § 106(3). *Id.* at 1097. Rather, like this Court in *Quality King*, *Sebastian* interpreted § 602(a) as setting forth a type of distribution right under § 106(3). In doing so, it anticipated and rejected the Ninth Circuit's reasoning in the present case, based on the very language of § 109:

> This analysis poses a problem in the case of unauthorized imports of *copies made abroad* pursuant to a license restricting sales to a particular country. Although the domestic copyright holder undoubtedly would prefer to block such importation, *the statutory language does not expressly authorize such control*.

Id. (emphasis added). Review by this Court is warranted due to the irreconcilability between the Third Circuit's reasoning and the erroneous decision of the Ninth Circuit below.

III. THE COMMON LAW FORECLOSES THE ALLEGED RIGHT RECOGNIZED BY THE NINTH CIRCUIT

Every codification of the first sale doctrine has addressed the doctrine in terms of a privilege conferred upon owners of lawfully made copies that "trumps" the distribution right of the copyright holder.[9] Notably, however, the *Bobbs-Merrill* common law formulation of the first sale doctrine that Congress intended to codify is more akin to the "exhaustion" principle recognized in international law,[10] including treaties to which the United States is a party. The Ninth Circuit's ruling is contrary to this common law formulation, further demonstrating its lack of foundation.

The common-law approach is instructive here, because under that framework, the copyright owner can only enjoy the distribution right with respect to the copies over which it retains ownership. In other

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[9] "Section 109(a) restates and confirms the principle that where a copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means." S. Rep. No. 93-983 (1974).

[10] "'Exhaustion' is the term that is often used in international agreements to refer to the termination of a copyright owner's distribution right with respect to a particular copy after that copy has been sold with the copyright owner's authorization – i.e., the first sale doctrine. The distribution right is said to 'exhaust' after the first sale." DMCA Section 104 Report, at 92 n.301, U.S. Copyright Office (August 2001).

words, the copyright owner's right of distribution ends with transfer of ownership. This rights-exhaustion approach is consistent with the legislative history of § 109. Indeed, Congress intended the right of distribution to be limited to the former right of "publication," as set forth in *Bobbs-Merrill*:

> Under this provision the copyright owner would have the right to control the first public distribution of an authorized copy or phonorecord of his work, whether by sale, gift, loan, or some rental or lease arrangement. Likewise, any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement. *As section 109 makes clear, however, the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.*

H.R. Rep. No. 94-1476, at 62 (1976) (emphasis added).

The Ninth Circuit's position is starkly contrary to both the common law and Congress' intent. The Ninth Circuit looked to the country in which a tangible medium of expression became a "copy or phonorecord" by virtue of reproduction, rather than – as Congress intended – to whether the reproduction and distribution was exercised and exhausted by or with the consent of the copyright holder. Nothing in § 106 requires the United States copyright holder to limit its enjoyment of the exclusive right of reproduction and distribution to copies made and distributed

within the United States. Nor, therefore, should the § 109 limitation on § 106(3) rights be so restricted.[11]

IV. THE HOLDING BELOW VIOLATES THE BASIS OF *SONY* BY EXTENDING COPYRIGHTS TO CHATTEL OWNED BY OTHERS

A fundamental basis for this Court's reversal in *Sony* was that the appellate court's decision would have "enlarge[d] the scope of respondents' statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection," thereby expanding copyright holders' control "beyond the limits of the grants authorized by Congress." *Sony*, 464 U.S. at 421. Like the overruled appellate decision in *Sony*, the Ninth Circuit's decision will allow copyright holders to exercise continued control over an article of commerce, despite that Congress has specifically granted to subsequent owners the right to transfer those articles as they see fit. Also contrary to *Sony*, the Ninth Circuit's holding would extend the right of distribution to include tangible

[11] Ironically, the European Union provides for exhaustion of copies distributed there. Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001, on the harmonization of certain aspects of copyright and related rights in the information society (OJ L 167/10 2001). The Ninth Circuit's rule, therefore, gives copyright holders who make and distribute copies within the European Union greater control over the copies circulating within the United States than they would have in the European Union itself.

media the copyright owner never controlled before, and containing works authored by others.

As explained above, copyright holders may, and do, license (or authorize retailers to license) the reproduction of their works by the owner of the tangible medium onto which the work is reproduced. Persons who lawfully reproduce the work using their own tangible media enjoy the right, pursuant to § 109(a), to distribute the resulting copies and phonorecords without consent of the copyright owner. *See, e.g., United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) ("[C]opyright law does not forbid an individual from renting or selling a copy of a copyrighted work which was lawfully obtained *or lawfully manufactured by that individual*." (emphasis added)); *United States v. Sachs*, 801 F.2d 839, 842 (6th Cir. 1986) (same). "Nothing in the statute limits the manner in which the making of the copy may be accomplished, so long as the resulting copy is lawful." DMCA Section 104 Report, at 23, U.S. Copyright Office (August 2001).

Given the routine practice today of reproducing copyrighted works onto high-capacity media over which the copyright owner has no claim of ownership (including even simple works of no independent commercial value, such as downloading software "patches," new "versions," or ancillary "drivers" common on every personal computer), it would upset settled practice and the current economics of buying and selling computers if the owner of the computer or portable device could be sued for infringement if the latest

upgrade, patch, driver, or new version happened to have been installed while the owner was vacationing abroad. While temporarily outside of the United States, the owner of a laptop might have reproduced a copy (specifically, a "phonorecord") of a song offered as a licensed download from the Internet website of the owner's favorite recording artist, only to learn that upon re-entry, it would be infringing to sell, lend or give away the laptop without first erasing the non-infringing reproduction from the hard drive.

In short, the Ninth Circuit's interpretation of the Copyright Act improperly gives copyright holders the exclusive right to distribute or authorize the distribution of every computer, telephone, portable media player or storage medium (including computer hard drives, USB drives, flash memory, compact discs and microchips) onto which they authorized a copy or phonorecord of their work to be reproduced, if that medium happened to be located outside of the United States when the reproduction took place. It makes little sense to interpret the distribution right so broadly as to attach to copies and phonorecords that the copyright owner authorizes be made abroad pursuant to § 106(1), yet find that a domestic distribution is immune from the application of § 109 out of concern over extraterritorial application of the Copyright Act. Some may argue that the balance of rights between the parties can continue to be fought out in the courts below, but the collateral damage to the statutory right to distribute copies lawfully made *in* the United States that share space on the same

tangible medium cannot be ignored. The works of non-party copyright holders that share space on the same tangible medium are effectively being censored in the meantime. Likewise, the rights of owners of copies lawfully made *in the United States* are abridged merely because the same tangible article that is protected by § 109 is, according to the Ninth Circuit, concurrently not protected by § 109 by virtue of having had another work reproduced onto it outside of the United States.

CONCLUSION

Because the judgment below is so irreconcilable with the views of the Third Circuit, so inconsistent with the first sale doctrine's purpose and roots, and so likely to usher in recurrent chaos in the marketplace and for noncommercial distributions by consumers, this Court should grant the Petition.

Respectfully submitted,

KATHLEEN R. HARTNETT
SPIVA & HARTNETT LLP
1776 Massachusetts
Avenue, NW
Suite 600
Washington, DC 20036
(202) 785-0601

JOHN T. MITCHELL
Counsel of Record
INTERACTION LAW
1629 K Street, NW
Suite 300
Washington, DC 20006
(202) 415-9213

AMICUS CURIAE BRIEF

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IN THE
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v.

OMEGA, S.A.,
Respondent.

On Petition for a Writ of Certiorari to the
United States Court of Appeals for the Ninth Circuit

BRIEF OF AMICUS CURIAE PUBLIC CITIZEN IN SUPPORT OF PETITIONER

LEAH M. NICHOLLS
ADINA H. ROSENBAUM
Counsel of Record
GREGORY A. BECK
BRIAN WOLFMAN
PUBLIC CITIZEN
LITIGATION GROUP
1600 20th Street, NW
Washington, DC 20009
(202) 588-1000

Counsel for Amicus Curiae Public Citizen, Inc.

June 2009

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INTRODUCTION AND INTEREST OF AMICUS CURIAE[1]

Public Citizen is a nonprofit consumer advocacy organization incorporated and headquartered in the District of Columbia, with approximately 65,000 members nationwide. Public Citizen is active before Congress, administrative agencies, and courts throughout the country on a wide variety of consumer protection issues, including copyright infringement. Public Citizen and its members have been and will continue to be consumers of copyrighted materials and goods with copyrighted labels. In addition to driving up prices, the Ninth Circuit's decision creates a risk of copyright infringement each time ordinary consumers, such as Public Citizen's members, sell or give away any copyrighted materials or goods with copyrighted labels that were manufactured abroad.

Public Citizen is concerned with the use and abuse of copyright law by manufacturers to impermissibly extend the limited monopoly provided by copyright law. Like Omega, other manufacturers have attempted to bypass the first-sale doctrine, thereby retaining control of any downstream sale or other transfer of copies of their products. Such abuse eliminates not only secondary

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[1]Counsel of record for all parties received notice at least 10 days prior to the due date of amicus Public Citizen's intention to file this brief. No counsel for a party authored this brief in whole or in part, and no counsel for a party or party made a monetary contribution intended to fund the preparation or submission of this brief. No one other than Public Citizen made a monetary contribution to the preparation or submission of this brief. The parties have consented to the filing of this brief, and letters of consent are being submitted concurrently.

markets for new goods, but also eviscerates any market for used products. The elimination of these markets requires consumers to purchase only new products directly from the manufacturer's dealer, preventing consumers from selling or giving away their personal property and artificially driving up prices.

In addition to other advocacy work, Public Citizen combats these monopolies by serving as counsel for individuals accused of copyright infringement by copyright abusing manufacturers. For example, Public Citizen represents Timothy Vernor, the plaintiff in *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008). Vernor purchased authentic used copies of Autodesk's design software package at an office sale, and then attempted to resell them on eBay. Autodesk, however, asserted that it does not allow resale of its products and maintained that Vernor's resale would infringe its copyright. Vernor brought a suit for a declaratory judgment, and cross-motions for summary judgment are currently pending.

Like Autodesk, Omega is attempting to control downstream sales of its product, but it is doing so by arguing that, when the copyrighted product is manufactured abroad, the first-sale doctrine is no exception to a copyright holder's exclusive right of importation. Both strategies have the same effect: They increase prices and eliminate a consumer's ability to sell or give away his or her personal property. Public Citizen is filing this brief to highlight the adverse consequences of the Ninth Circuit's decision in this case and to urge the Court to grant the petition.

REASONS FOR GRANTING THE PETITION

I. The Ninth Circuit's Rule Upsets the Balance Created By the First-Sale Doctrine.

Copyright law is designed to promote creative works by ensuring that the creator is compensated for his or her efforts. Copyright law ensures such compensation by providing the creator with a limited monopoly over copies of the work. The copyright holder has the exclusive right to produce or authorize copies and to distribute and import those copies.[2] 17 U.S.C. § 602(a)(1). That monopoly is tempered by the first-sale doctrine, which provides "that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution," including importation. *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998); *see* 17 U.S.C. § 109(a). The first-sale doctrine reflects "the traditional bargain between the rights of copyright owners and the personal property rights of an individual who owns a particular copy" and recognizes "that the law generally disfavors restraints on alienation." *Brilliance Audio, Inc. v. Haights Cross Commc'ns, Inc.*, 474 F.3d 365, 373–74 (6th Cir. 2007). In other words, copyright holders are the only ones who may produce or authorize copies of the copyrighted material, but once they sell those copies, they have been compensated for their efforts and may not control any subsequent, or "downstream," sales of those copies. This limitation permits the owners of a particular

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[2]Without a limited monopoly on importation, copyright holders could not prevent foreign pirated copies from being imported into the United States.

authorized copy to have the same rights over the copy as any other item of personal property; they may sell, give away, destroy, or otherwise alienate the copy so long as they do not copy it.

The first-sale doctrine's limitation on the otherwise exclusive sale and importation rights of a copyright holder applies even if the first sale occurs abroad. *Quality King*, 523 U.S. at 150–51. Yet the Ninth Circuit held here that the first-sale doctrine does not apply when the copyrighted good was manufactured abroad, unless the copyright holder authorized a sale in the United States. Pet. App. 3a.

Nothing in the language of the first-sale provision of the Copyright Act limits its application to American-made goods. Rather, the statute states that it applies to copies "lawfully made under this title." 17 U.S.C. § 109(a). Taken literally, the statute only requires that the copy be made (1) lawfully, or with the authorization of the copyright holder (*i.e.*, the copies must be authentic, as opposed to pirated), *id.*, and (2) under the United States Copyright Act, meaning that the copyright holder must own a United States, as opposed to a foreign, copyright, *id.*; *see Quality King*, 523 U.S. at 146–47. Nothing in the language of the statute places any geographic limitation on manufacture.

Recognizing that eliminating the first-sale doctrine for all foreign-manufactured goods would be catastrophic to American markets, the Ninth Circuit created an exception to its rule when the copyright holder's authorized sale occurs in the United States. *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1149–50 (9th Cir. 1996). The Ninth Circuit's exception, however, is in tension with this Court's holding in *Quality King* that the location of the first sale is irrelevant to the doctrine's application. 523 U.S.

at 145. The Ninth Circuit's arbitrary distinction between sales in the United States and sales abroad has no foundation in the text of the statute, which says nothing about the location of the first sale, and does nothing to further the purpose of the Copyright Act, which is to promote creative expression. *Id.* at 151. And, as discussed below, the exception does not eliminate the paralyzing effect the Ninth Circuit's rule has on the transfer of copyrighted goods within the United States.

Omega contended below that Justice Ginsburg's brief concurring opinion in *Quality King* affirmatively shows that the Court held that goods manufactured outside the United States were not subject to the first-sale doctrine. But, even if Justice Ginsburg's opinion accurately reflects the holding of the Court, her opinion states only that *Quality King* did not decide whether the doctrine applies to goods manufactured abroad, which is a reason why this Court should grant review. *Id.* at 154 (Ginsburg, J., concurring) ("[W]e do not today resolve cases in which the allegedly infringing imports were manufactured abroad.").

In short, the Ninth Circuit's holding permits United States copyright holders who manufacture and sell their copies abroad to prohibit any downstream ownership transactions involving their authentic goods in the United States, even those of ordinary consumers who may wish to give away or sell their property. Such a rule upsets the careful balance struck by the first-sale doctrine between compensating creative expression and protecting personal property rights.

II. The Ninth Circuit's Holding Severely Undermines Consumers' Personal Property Rights.

This Court should grant certiorari and reverse the Ninth Circuit's erroneous holding because it severely restricts ordinary consumers' control over their personal property. Under that holding, copyright infringement occurs each time there is a transfer of ownership of a copyrighted good that has been manufactured abroad without a copyright holder's authorized sale in the United States. This is problematic not only for retailers who may be unaware of a product's chain of distribution, but also for individual purchasers who have even less knowledge about the sale history of a particular item.

In practical terms, the Ninth Circuit's holding means that an individual consumer commits copyright infringement whenever he or she sells, gives away, or donates a product that happens to fall within the Ninth Circuit's rule. Such a consumer would then be liable for statutory damages up to $150,000, attorney's fees, and, if the consumer resold the item, criminal penalties. *See* 17 U.S.C. §§ 504, 506. For example, here, a consumer who purchased an authentic Omega Seamaster watch at Costco could not give it to her son as a graduation gift, donate it to a charity auction, or sell it to a secondhand jewelry shop without violating the Copyright Act. And the consumer would not even know that the tiny symbol on the watch has a registered copyright in the United States because it did not come with a copyright notice. *See* Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, § 7, 102 Stat. 2853 (1988) (eliminating the requirement that copyrighted materials carry a notice of copyright).

The Ninth Circuit's holding has significant effects on the use and resale of traditional copyrighted materials. Individuals would be unable to donate foreign-printed and sold but American-copyrighted books to libraries or sell them to secondhand book shops, who in turn could not resell them. The same is true of authentic but foreign-manufactured and sold CDs. And because the Copyright Act applies to all transfers of ownership, individuals would be categorically prohibited from giving foreign-made and sold copyrighted materials as gifts.

The examples provided above demonstrate the absurdity of the Ninth Circuit's ruling, but at least books and music recordings are the core type of creative expression the Copyright Act is designed to promote and protect. Even worse, manufacturers of ordinary functional items have discovered that they, too, can take advantage of copyright law by copyrighting products' labels or packaging, or, as in this case, by placing tiny copyrighted etchings on the back of their products. In a case about a copyrighted shampoo label, this Court tolerated such a copyright, but explained that, in interpreting the Copyright Act, "we must remember that its principal purpose was to promote the progress of the 'useful Arts' by rewarding creativity and its principal function is the protection of original works, rather than ordinary commercial products that use copyrighted material as a marketing aid." *Quality King*, 523 U.S. at 151 (citation omitted).

Here, the undisputed evidence is that Omega added the tiny globe design on the back of its Seamaster watches only because it wanted to take advantage of United States copyright law to establish a monopoly for Omega watches

in the United States by preventing Costco from selling authentic Omega watches at a lower price. Pet. 5. And unlike the purchasers of a book, who are buying it most likely because of its creative content, the purchasers of an Omega watch probably care little about the tiny etching Omega has lately added to its watches in an unabashed effort to control their sale downstream.

The importation rights awarded to copyright holders in the Copyright Act are designed to prevent the importation of *pirated* copies manufactured abroad. Here, there is no question that the watches at issue are authentic watches manufactured by Omega and that Omega sold the watches to one of its authorized distributors. Omega complains only that those authentic watches were eventually sold to Costco, which was able to sell them at a price lower than that of Omega's direct purchasers in the United States. In short, Omega's manipulation of the copyright law is designed to create a monopoly by limiting who may sell Omega watches in the United States and mandating the prices those retailers can charge. And it is doing so via a copyright that has little to do with either the core expression meant to be protected by the Copyright Act or the unauthorized copying prohibited by it.

Omega is not the only manufacturer that has taken advantage of the opportunity to control the distribution of its products by slapping a copyrighted label or symbol on its otherwise uncopyrightable functional product. As noted above, *Quality King* involved the label on a shampoo bottle, *id.* at 138, and federal case law contains many other examples, including copyrighted perfume boxes, *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and diaper packaging, *Denbicare*, 84 F.3d at

1145. The upshot is that, unbeknownst to the ordinary consumer, any product could be packaged in copyrighted labeling. And if that label or packaging happened to be manufactured abroad, as is true with many products in our increasingly global economy, and the copyright holder's authorized sale did not occur in the United States, the consumer would be prohibited from transferring ownership of his or her authentic and paid-for personal property.

For example, under the Ninth Circuit's rationale, an individual would be unable to resell products with foreign-made copyrighted labels at a garage sale if those products were not first sold in the United States. A car owner could not sell a used foreign automobile with a copyrighted computer system or Omega-like emblem. As long as there is a copyright hook, a Craigslist resale of a Japanese-made Costco-purchased big screen television, surround sound system, and DVD player would be off-limits. Beware of bringing that bottle of Italian wine with that interesting label to the new neighbors as a housewarming gift. An American traveler could not even purchase the Seamaster watch at the Omega factory in Switzerland to bring back to the United States to give to her father as a retirement gift without committing copyright infringement.[3] None of these examples involves an unauthorized copy of the item or a situation involving an unauthorized initial sale.

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[3]The "suitcase exemption" of the Copyright Act permits importation of copies of copyrighted materials without the authorization of the copyright holder when they are in the personal baggage of a traveler, but not if the traveler intends to distribute the copy or copies to others. 17 U.S.C. § 602(a)(2).

Nevertheless, they would all be examples of copyright infringement if the decision below stands. And since a manufacturer could put a copyrighted label on virtually any product, there is no limit on the everyday items affected.

In short, the rule used by the Ninth Circuit below eviscerates the ordinary property rights consumers have—rights traditionally protected by the first-sale doctrine—over authentic pieces of personal property just because those items are copyrighted, were manufactured abroad, and the copyright holder's authorized sale did not occur in the United States. And because copyright notices are no longer required and the consumer cannot track the item's distribution history, the consumer has no way of knowing whether the good, or its label, falls into that category. Aside from the significant direct impact of the decision below on ordinary consumers' property rights, it encourages manufacturers to copy Omega's strategy of slapping copyrighted labels or symbols on their otherwise uncopyrightable products, and then manufacture and sell those products abroad. If not reversed, the Ninth Circuit's holding permits such manufacturers to control every transfer of their products in the United States, including each individual's gift, donation, or resale.

CONCLUSION

The petition should be granted.

Respectfully submitted,

LEAH M. NICHOLLS
ADINA H. ROSENBAUM
Counsel of Record
GREGORY A. BECK
BRIAN WOLFMAN
PUBLIC CITIZEN
LITIGATION GROUP
1600 20th Street, NW
Washington, DC 20009
(202) 588-1000

Counsel for Amicus Curiae Public Citizen, Inc.

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AMICUS CURIAE BRIEF

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BRIEF OF *AMICI CURIAE* PUBLIC KNOWLEDGE, ELECTRONIC FRONTIER FOUNDATION IN SUPPORT OF THE PETITION

Jeffrey Pearlman
Sherwin Siy
Gigi B. Sohn
Counsel of Record
Public Knowledge
1875 Connecticut Ave. NW
Suite 650
Washington, DC 20009
(202) 518-0020
Counsel for Amici Curiae

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INTEREST OF THE *AMICI*

Public Knowledge and the Electronic Frontier Foundation respectfully submit this brief in support of the petition for writ of certiorari to the United States Court of Appeals for the Ninth Circuit.[1] Public Knowledge is a non-profit public interest organization devoted to protecting citizens' rights in the emerging digital information culture and focused on the intersection of intellectual property and technology. Public Knowledge seeks to guard the rights of consumers, innovators, and creators at all layers of our culture through legislative, administrative, grass-roots, and legal efforts, including regular participation in copyright and other intellectual property cases that threaten consumers, trade, and innovation.

The Electronic Frontier Foundation (EFF) is a nonprofit civil liberties organization working to protect consumer interests, innovation, and free expression in the digital world. EFF and its more

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[1] No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae*, or its counsel, made a monetary contribution to its preparation or submission. Petitioner has consented to the filing of this brief and Respondent has filed a letter with the Court granting blanket consent for *amici*. Parties have been given at least 10 days notice of *amici*'s intention to file. Petitioner's letter of consent has been filed with the Office of the Clerk of this Court.

than 13,000 thousand dues-paying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between intellectual property and the public interest.

This case threatens the ability of consumers and businesses alike to control and dispose of *all* lawfully acquired goods that contain a copyrighted work made outside the United States. In an increasingly interconnected world, where the manufacturing of tangible products and knowledge goods can be distributed easily and widely, consumers should be confident that they retain the same rights to their belongings regardless of where those goods or their labeling were produced. The decision below provides a recipe for ensuring that all goods – consisting of copyrighted content or not – can no longer be lawfully resold, given away, or imported after a lawful sale abroad. It is critical that certiorari be granted and that the law be clear that 150 years of common law on personal property can not be overridden by misconstruing a copyright statute 30 years after its passage. *See, e.g.*, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908) (identifying the first sale doctrine and observing that "[t]o add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute").

SUMMARY OF ARGUMENT

By wrongly deciding that it is illegal to

import a lawfully-purchased watch because it has a logo inscribed on the back, the Ninth Circuit has opened the door to extensive harm to U.S. consumers and businesses alike. The decision below creates an interpretation of the law that will bar all distributions of copyrighted works manufactured overseas. It also provides a recipe to take otherwise unremarkable goods and, by adding a minimal copyrighted work like a logo, render them immune from resale in or parallel import into the United States – two activities with a history as old as the nation both in terms of legality and providing broad consumer benefits. *See, e.g.*, H.R. Rep. 98-987, at 1 (1984) ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property."). Further, this recipe provides incentives for both U.S. and non-U.S. producers to move their manufacturing out of the country for goods intended to be sold both here and abroad.

The consequences of this ruling should not be underestimated. Resellers – be they online auction houses like eBay, individual users of those services, or local antique stores – will be subject to strict copyright liability and extensive damages if they sell products whose label or logo happens to have been made abroad.[2] With no

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[2] Liability for direct infringement of a copyright owner's exclusive rights regardless of the defendant's knowledge or intent. *See, e.g.*, *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 308 (2d Cir. 1963).

(footnote continued...)

way to find out where a logo was made, and no incentive for the producer to provide that information, it will become nearly impossible to safely resell even products which remain lawful to resell. And with the incentive to move manufacturing abroad, the destruction of the secondary market and parallel imports is likely to rapidly expand to cover *all* goods.

There is no evidence that Congress intended that such an inconsistent reading of the law be used to enable such expansive changes to the trade and retail landscape. If the Ninth Circuit's decision, based on an erroneous interpretation of the Copyright Act, is allowed to stand, then consumers, importers, retailers, and resellers will pay the price. Therefore, to prevent extensive harm to countless consumers and businesses, the Court should grant the writ of certiorari and reverse the decision of the court below.

ARGUMENT

The court should grant the writ of certiorari because the decision below is erroneous and does widespread harm to consumers and businesses engaged in the lawful use and sale of goods that may have been manufactured abroad.

(continued from previous page)
Copyright owners who have registered their works are also entitled to statutory damages ranging between $750 and $150,000 per work infringed. *See* 17 U.S.C. § 504(c).

I. THE CONSEQUENCES OF ALLOWING THE DECISION BELOW TO STAND INCLUDE FAR-REACHING DAMAGE TO TRADE, INNOVATION, AND THE GENERAL PUBLIC INTEREST

In its decision, the Ninth Circuit interprets § 109 in a way that precludes its application to any works manufactured abroad. *See Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008).[3] By failing to protect lawful purchasers from § 602's import prohibitions, this interpretation will preclude the entire secondary market in copyrighted works made outside the United States. *See* 17 U.S.C. § 602. Furthermore, the Ninth Circuit's decision has created a blueprint for eliminating long-standing rights in personal property. By manufacturing goods abroad and attaching minimal copyrighted works such as logos to them, producers will now be able to prevent the importation of any foreign-made, lawfully purchased goods as well as the reselling, lending, or otherwise disposing of goods that have been lawfully imported to the United States.

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[3] As discussed below, *see infra* § II.A.2, p. 24, the Ninth Circuit's exception for first sales occurring in the United States is no longer operative law.

A. The Decision Below Prevents the Resale of Any Goods Containing Foreign-Made Copyrighted Works, Even When Lawfully Imported

When carried to its logical conclusion, the statutory interpretation announced by the Ninth Circuit will eliminate the secondary market for any goods containing a copyrighted work, even when that work was imported and sold by the original copyright owner. If "lawfully made under this title" is read as equivalent to "lawfully made within the United States," then the first sale doctrine (as codified in 17 U.S.C. § 109) will cease to operate not only for parallel imports – goods sold lawfully outside the United States and then imported by someone not authorized by the copyright holder – but for *any* works manufactured outside of the United States.[4]

This creates new harms, unintended and of immense scope:

1. The Inability to Resell Lawfully Purchased Goods Does Direct Harm to Consumers and Resellers

Two aspects of the lower court's ruling do direct harm to consumers and resellers. First, the interpretation of § 109 removes a vast scope

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[4] Section 109 only applies to "cop[ies] . . . lawfully made under this title." *See* 17 U.S.C. § 109.

of copyrighted works from the first sale doctrine. Second, by applying this ban on resale to goods to which a copyrighted work is affixed, the Ninth Circuit's decision jeopardizes secondary markets in all goods.

i. Eliminating First Sale for Copyrighted Works Harms Consumers and Resellers

If § 109's protections are eliminated, lawful copies of works cannot be resold, given away, lent, or displayed without the copyright owner's permission. If those protections are conditioned upon the place of manufacture of the work, owners will be unable to determine whether or not they are protected, and so these activities will be effectively foreclosed for all works.

Without first sale, all § 106 rights remain with the copyright owner even after a copy of a work is lawfully sold. For instance, § 106(3) provides copyright holders with the exclusive right to distribute copies of copyrighted works by sale or other transfers of ownership. *See* 17 U.S.C. § 106(3). Thus, without the first sale doctrine, the owner of a copy of a work cannot legally sell it or give it away.

Section 109 prevents such unwieldy scenarios, and in doing so forms the basis for our uses of, and market in, information, goods, and creative works. If, as the lower court contends,

first sale requires a domestically-produced copy, then no portion of § 109 will ever apply to a foreign-made work. Since exhaustion is only triggered when the copy is "lawfully made under this title," and since the origin of any given copy cannot be changed once it has been "made," the Ninth Circuit's basic reading of this phrase will never allow the distribution right to be exhausted, even after an authorized import.

The Ninth Circuit's reading of § 109, if applied plainly, would eliminate the first sale doctrine for all foreign-made copies of works. This result undoes 150 years of common and statutory law demonstrating that the purchaser of an item – even if that item contains a copyrighted work – has the right to dispose of it as they wish. *See, e.g. Sebastian Int'l., Inc. v. Consumer Contacts, Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988) ("The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property.") and sources cited therein.

Given this newly-extended liability, a reseller of copyrighted works, whether a massive used bookstore or a neighborhood yard sale, would be barred from the simplest transaction, if the copy of the work at issue had been manufactured outside the United States. Readers will suddenly require the consent of a publisher or author before lending their favorite foreign books to a friend. Libraries and archives stand to suffer particular harm under this interpretation. In many cases, the secondary

market is the *only* source for out-of-print books and other copyrighted works or goods containing these works. With the elimination of § 109's protections, libraries and archives will no longer be able to add to their collections unless both they and the seller can be entirely sure that the works in question were not manufactured abroad and that they will not face extensive damages as a result of the sale.

The damage done by this rule is also not limited to resale. Section 106(5) grants copyright holders the exclusive right to publicly display works. *See* 17 U.S.C. § 106(5). Absent the first sale doctrine as embodied in § 109(c), the owner of a particular copy will not be able to display that copy: the buyer of a poster could not hang it in her window; an auction house could not display an imported product bearing a copyrighted label. Similarly, a newspaper subscriber could not display a memorable front page in his publicly accessible office.

Furthermore, if one adopts at face value the interpretation that a copy must be made in the United States, first sale is eliminated no matter who imports the goods in question. If a copyright-owning record label were *itself* to import a foreign-manufactured compact disc to the United States and sell it to a consumer, that consumer will not be able to give or lend it to a friend or sell it to a dealer without the record label's permission.

ii. Applying the Ruling Below to Goods Merely Containing a Copyrighted Work Allows These Harms to Spread Further

However, this is not the full extent of the harm that the decision below will visit upon consumers. In its decision, the Ninth Circuit has provided a recipe for eliminating not just parallel imports of copyrighted works, but parallel imports of *all* goods. Under the lower court's ruling, goods which contain a work protected by copyright in the United States cannot be lawfully imported and sold without permission. The bar to obtaining copyright protection in the United States is low. Nearly any logo will be copyrighted; all that remains is for the manufacturer to deposit copies of the logo with the Copyright office, 2-7 *Nimmer on Copyright* § 7.18 (2009), pay a $35 or $45 fee, *id.* § 7.24., and it will gain the ability to obtain an injunction against importing of the item, as well as the ability to have imported items impounded or destroyed. *See* 17 U.S.C. §§ 411(a), 502-03.

The case at hand illustrates this plan perfectly. Omega is seeking to enjoin importation of watches by leveraging the copyrighted logo engraved on the *back* of the watch, unknown to any but the wearer. *Omega*, 541 F.3d at 983. No copyright on any other part of the watch is at issue, and there are no allegations that the

watches are counterfeit or that the trademark embodied in Omega's logo is being used in violation of relevant trademark laws.

The harm caused by the elimination of first sale thus goes far beyond a seller's ability to vend books, music, software, or movies. All resellers who carry or display goods with labels or logos manufactured abroad will become infringers. Imported wines bearing copyrighted labels will be kept from auction houses, retail resellers, and gift bags alike. Foreign cars will not be resold except, possibly, through "authorized" dealers. Articles of clothing sewn overseas carrying copyrighted logos or tags will be barred from being sold to thrift stores, handed down to friends, or donated to charitable organizations. Auction houses will be unable to sell or display fine art without locating the source and ensuring it is domestic or authorized. Neither a pawnbroker nor a jeweler will be able to place an Omega watch on display in his window without authorization. Even Belgian chocolates bearing a copyrighted imprint on their packaging or on the confections themselves will create infringement liability once dropped into a child's Christmas stocking.

The chilling effect of the Ninth Circuit's interpretation on resale is not limited to goods containing works made abroad. In most cases, resellers will have no idea whether a work's label was made in the United States or in Switzerland. Given the expanded control this rule gives producers, they will have no incentive

to make it clear to resellers where the label was made. As a result, no thrift shop, used furniture dealer, or online marketplace will be able to safely sell or display *any* goods bearing a logo or label because of the mere possibility that it was originally made elsewhere. Given the scope of potential damages, many would-be resellers will reasonably choose not to take the risk at all. And with the possibility of copyright liability for a purchaser who later resells or gives away a product, even those resellers willing to take the risk are likely to find themselves without a market to sell to.

By cramming the trade in other goods into the copyright law regime, the lower court's decision also expands the application of the extensive damages offered under copyright law. At the very minimum, violators are liable for actual damages, *see* 17 U.S.C. § 504(b), which can rise rapidly when an expensive item (such as an Omega watch) is at issue. Perhaps worse, if the work is registered, infringers are liable for between $750 and $30,000 per work in statutory damages regardless of the actual value of the work involved, or up to $150,000 in the case of willful infringement, *see* 17 U.S.C. § 504(c).

Through this unwarranted extension of copyright, brand owners could thus maintain control over the tangible goods they have produced long after they have released them into the stream of commerce, allowing for price discrimination nonpareil. Producers could allow resale only through "authorized" secondary

markets, or permit only gifts, or simply foreclose the secondary market altogether. But regardless of what tack a manufacturer chooses to take, anyone who purchases those goods will only be able to resell or give them away by risking becoming a copyright infringer.

2. Manufacturers Can Deliberately Foreclose the Secondary Market by Manufacturing Abroad

If § 109 does not apply to goods manufactured abroad that contain copyrighted works, then the Ninth Circuit has provided a recipe for all manufacturers – domestic or foreign – to eliminate the secondary market. A manufacturer need only step outside the United States and add a logo, print a photograph, attach instructions, or embed software in their products to ensure that the lawful purchaser of those goods is no longer allowed "without the authority of the copyright owner, to sell or otherwise dispose of the possession of that" item. *See* 17 U.S.C. § 109. Thereafter, anyone who does any of these things is automatically a copyright infringer.

It is also important to note that copyrighted trademarks are not the only mechanism by which manufacturers can use the Ninth Circuit's decision to prevent parallel imports. Any copyrighted work will have the same effect. Other examples abound: an inscription on a picture frame, software embedded in a CD player or installed on a home computer hard drive, and

the instruction manual attached to a camping tent will all create the same collateral damage to trade as a copyrighted logo.

Under this interpretation of § 602, a California wine producer could choose to have labels produced in Mexico with the result that no one could give away or resell a bottle of their wine without permission. Car manufacturers could have their logos manufactured internationally and foreclose the used car market entirely. And, of course, this scheme applies to copyrighted works, too: for instance, printers of books could move their manufacturing abroad to eliminate the used book store market.

Thus, in addition to harming consumers and businesses who rely on the secondary market, this rule gives an unintended and perverse advantage to both domestic and foreign manufacturers who choose to have their goods made abroad rather than in the United States by giving them superior control over the distribution of those goods. If copyright law is misused to create strong incentives to move manufacturing abroad, U.S. manufacturers and consumers will pay the price, both in increased costs and lost control over personal property.

B. The Ninth Circuit's Interpretation Will Allow Enjoining of Parallel Imports, Contrary to Congressional Intent and Rational Policy

Parallel imports benefit both consumers and

U.S. businesses who rely on the ability to bring lawfully purchased goods into this country. The decision below not only harms these consumers and businesses by extending copyright far beyond its proper scope, but runs contrary to express congressional intent.

1. By Co-Opting Copyright Law to Restrain Parallel Imports, the Ruling Below Runs Contrary to Congressional Intent

The purpose of the monopoly granted by copyright law is

> no[t] primarily designed to provide a special private benefit or control trade. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired. . . . The copyright law, like the patent statutes, makes reward to the owner a secondary consideration.

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984). This purpose has nothing to do with control of trade, import, or price discrimination in non-copyrighted goods, and any reward obtained through those methods is secondary.

The case at bar illustrates the degree to which copyright is being used as a means of circumventing these principles: the watches to which Omega attaches its globe logo are, after all, the primary concern and the source of the value to Omega and Costco that are driving this litigation. The value of the creative expression embodied within the logo itself is marginal. Its use here is not as a creative work in itself, nor even as a mark of origin or authenticity (as distinct from the numerous other trademarks on the watch), but to provide a veneer by which copyright law may by applied to stop parallel imports of goods which would otherwise fall outside the purview of Title 17's unique restrictions.

In fact, the Ninth Circuit considered and properly rejected any recovery in the *Omega v. Costco* fact pattern twenty years ago (notably, well after the passage of § 602). In a similar case pled under trademark law, the court explained that,

> [i]f [the plaintiff] chooses to sell abroad at lower prices than those it could obtain for the identical product here, that is its business. In doing so, however, it cannot look to the United States trademark law to insulate the American market or to vitiate the effects of international trade. This country's trademark law does not offer [the plaintiff] a vehicle for establishing a worldwide discriminatory pricing scheme.

NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506,

1511 (9th Cir. 1987).

Copyright law likewise does not provide a vehicle "for establishing a worldwide discriminatory pricing scheme" for all goods, which is exactly what the decision below does. Rather, "[t]his case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a . . . manufacturer to prevent the importation of its own products by the 'gray market.'" *Sebastian International*, 847 F.2d 1093, 1094 (3d Cir. 1988) (addressing a similar case in the context of a domestic manufacturer).

Furthermore, there is no evidence that in creating § 602, Congress intended to create this international price discrimination system or restrict imports for all goods through copyright law enforcement. The statute and accompanying legislative history make no suggestion that § 602 could or should be used to exert any control over the importation of goods which are not themselves copyrighted. Further, several statutes passed since the creation of § 602 in 1976 have expressed a continued understanding and intent that parallel imports remain legal and continue to benefit consumers. *See, e.g.*, *Stop Counterfeiting in Manufactured Goods Act*, Pub L. No. 109-181, § (b)(3)(B), 120 Stat. 285, 287 (codified as amended at 18 U.S.C. § 2320(e)(b) (2006)) (explicitly exempting authorized uses of marks from the act's prohibitions on the import of "counterfeit marks"); 151 Cong. Rec. S12714-01 (2005) (statement of Rep. Lofgren) ("Parallel markets are those in which third parties lawfully

obtain goods and make them available in discount stores. Not only has this practice been upheld by the Supreme Court, but it also saves consumers billions of dollars each year . . . We now have a bill that protects manufacturers, targets illegitimate actors, protects consumers, and leaves the legitimate parallel market unscathed.").

2. Restraining Parallel Imports Creates Tangible Harms to Consumers, Retailers, and the Economy

A robust parallel market has provided a tremendous benefit to the American economy by providing lower-cost alternatives to consumers and creating a robust, competitive market for resellers of imported goods. The decision below's effect on the parallel import market and consumer costs and the resulting harm to U.S. commerce stand to measure in the billions of dollars. *See, e.g.*, 151 Cong. Rec. H3699-05 (2005) (statement of Rep. Conyers) ("Not only has [the parallel market] been upheld by the Supreme Court, but it also saves consumers billions of dollars each year.")

In 1985, *Time Magazine* reported that the secondary market constituted approximately $5.5 billion of the nation's retail trade. Raji Samghabadi, *Inside the Gray Market*, Time Magazine (Oct. 28, 1985), *available at* http://www.time.com/time/magazine/article/0,9171,960231,00.html. Since then and since *Quality King*, this number has grown significantly, to the

benefit of free trade and consumers. By 2000, "the U.S. market for gray goods [was] somewhere between $10 and $20 billion a year." Olga Kharif, *The Global Economy's Gray-Market Boom*, BusinessWeek Online (Nov. 30, 2000), *available at* http://www.businessweek.com/bwdaily/dnflash/nov2000/nf20001130_555.htm. In 2009, the parallel market in information technology alone is estimated to be more than $40 billion a year. Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Working Paper No. 09-098, at 1 (Feb. 25, 2009), *available at* http://www.hbs.edu/research/pdf/09-098.pdf.

Consumers are obvious beneficiaries of this market as they enjoy competitive prices and savings versus a scheme where they are charged as much as they are able to bear. *See, e.g.*, Ryan L. Vinelli, *Bringing Down the Walls: How Technology is Being Used to Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights*, 17 Cardozo J. Int'l & Comp. L. 135, 143 (Winter 2009). Well-known stores like "T.J. Maxx, Marshall's, Ross, and Loehmann's sell billions of dollars of gray market designer clothing, shoes, perfumes, luggage, jewelry, china, and other goods every year . . . for lower prices than in department stores or boutiques." Kimberly Reed, *Levi Strauss v. Tesco and E.U. Trademark Exhaustion: A Proposal for Change*, 23 Nw. J. Int'l L. & Bus. 139, 165 (Fall 2002) (citation omitted). More recent figures show revenues

from T.J. Maxx and Ross Stores to be at $19 billion and $6.4 billion, respectively. *See CNN Money, TJX Companies Inc, at* http://money.cnn.com/quote/quote.html?symb=TJX (last visited June 17, 2009); *CNN Money, Fortune 500, Ross Stores*, at http://money.cnn.com/magazines/fortune/fortune500/2009/snapshots/10153.html (last visited June 17, 2009).

In the current economy, more and more families rely on the competition among discount retailers to keep prices affordable. Unfortunately, the success of these businesses and the consumer welfare that results from this competition are now jeopardized by the gutting of the first sale doctrine. Without § 109's protections, American consumers will suffer increased cost and decreased availability in markets far outside the scope of copyright law.

II. THE NINTH CIRCUIT'S INTERPRETATION OF 17 U.S.C. § 109 IS ERRONEOUS

The lower court interprets the phrase "lawfully made under this title" to act as a geographic restriction rather than a legal one. This interpretation is inconsistent with the intent and operation of § 109 and Congressional policy towards parallel imports, and will lead to absurd and contradictory results throughout Title 17 and the U.S. Code generally. These incongruities and their potentially devastating results indicate that the Ninth Circuit's reading of the statute is incorrect and in need of

reversal.

A. Properly Read, "Lawfully Made Under This Title" Allows § 109 to Apply to Sales of Works Made Outside the United States

The Ninth Circuit concluded that the phrase "lawfully made under this title" precludes application of 17 U.S.C. § 109 to sales made internationally. For several reasons, this conclusion is neither necessary nor reasonable.

1. A Reasonable Reading Allows § 109 to Apply to International Sales Without Requiring Extraterritorial Application of the Law

The phrase "under this title" is used throughout Title 17 (and the rest of the United States Code) to mean "under the terms of the statutes within." While the laws of the United States Code generally apply only within the geographic boundaries of the United States, it requires a large and unnecessary logical leap to assume that "under this title" must be interchangeable with "within the United States." Should Congress wish to create an explicit geographic limit on the conditions for the provision's application, the phrase "within the United States," and many other variations on

that theme, are readily available.[5]

It does not require an extraterritorial application of United States law to read § 109's condition as something other than a geographic restriction. A number of other provisions within Title 17 rely upon the status of actions and occurrences abroad.

For instance, 17 U.S.C. § 104(b) states that published works "are subject to protection under this title" if the work is first published in any nation that is a "treaty party." *See* 17 U.S.C. § 104. Any work published in Switzerland (a party to the Berne Convention and the WIPO Copyright Treaty, among others), is therefore, according to § 104, "under [Title 17]." Section 104 guarantees, within the United States, protection of the copyrights of works created elsewhere. Far from applying the Copyright Act extraterritorially, such a determination merely acknowledges the existence of a foreign work as a relevant fact that bears upon the protected status it shall enjoy *in* the United States.

The Ninth Circuit's own precedent

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[5] Indeed, the phrase "within the United States" is used in 17 U.S.C. § 1309, and a rudimentary search reveals it is used several thousand times elsewhere in the United States Code. *See, e.g.*, http://www.google.com/search?q=%22within+the+United+States%22+site:cornell.edu/uscode/&hl=en&start=10&sa=N&cts=1244817723796.

acknowledged that work manufactured abroad could be "lawfully made under this title." By holding that a copy of a work manufactured abroad but sold in the United States was protected by § 109, the Ninth Circuit implicitly recognized that § 109's language applied to a work made outside the United States. *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994). Although other portions of the holding of *Drug Emporium* have been implicitly overruled by *Quality King*, *see infra* § 2, p. 24, it demonstrates a recognition that it requires no extraterritorial application of United States law to take note of a work's sale or legal status in another country. Doing so does not in any way affect the rights of parties conducting business under foreign law. Instead, only the application of United States law, within the United States, is affected by determinations of § 109's applicability.

2. The Lower Court's Reading is Inconsistent With the Statue and Results in Contradictions With This Court's Precedents

The lower court's interpretation of "under this title" in § 109 directly contradicts the language of the statute and clear Congressional intent. *See Robinson v. Shell Oil Co.*, 519 U.S. 337, 340-41 (1997) (holding that the first step in interpreting a statute is determining its plain and unambiguous meaning; plainness or ambiguity is "determined by reference to the

language itself, the specific context in which that language is used, and the broader context of the statute as a whole"). Literally applying the Ninth Circuit's interpretation of § 109 will eliminate secondary sales of copyrighted material produced outside of the United States. As discussed above, such a result is absurd on its face.

The Ninth Circuit attempted to mitigate some of this absurdity by grafting a judicial alteration onto its existing interpretation. In *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, the Ninth Circuit held that first sale applies to § 602 when copies were made overseas but "there has been a 'first sale' in the United States." 38 F.3d 477, 481 (9th Cir. 1994). This additional complication was motivated in part because the court recognized that its continued interpretation of § 109 "would lead to absurd and untenable results," including the fact that "foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States." *Drug Emporium*, 38 F.3d at 482, n.8.

The lower court chose not to decide whether the holding in *Drug Emporium* runs afoul of this Court's binding precedent in *Quality King Distribs., Inc. v. L'anza Research Intn'l, Inc.*. 523 U.S. 135. *See Omega*, 541 F.3d at 990. However, *Quality King* held explicitly that "the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court *even if the first*

sale occurred abroad." *Quality King*, 523 U.S. at 145 n.14 (emphasis added).

Because the place of initial sale is the only material distinguishing factor between *Drug Emporium* and the decision below, *Drug Emporium* is "clearly irreconcilable" with existing Supreme Court and Ninth Circuit law, and is no longer controlling law in the Ninth Circuit. *See Miller v. Gammie*, 335 F.3d 889, 893 (9th Cir. 2003) (holding that "in circumstances . . . where the reasoning or theory of our prior circuit authority is clearly irreconcilable with the reasoning or theory of intervening higher authority, a three-judge panel should consider itself bound by the later and controlling authority"). We note that if, somehow, the holding of *Drug Emporium* survives, the dire consequences of the lower court's holding here are only slightly mitigated: resale, lending, and other distribution of lawfully purchased goods will still be unlawful if the copyrighted work it contains is first sold abroad, and the place of initial sale will remain impractical or impossible to determine. Further, parallel imports will still be completely foreclosed, as, by definition, they occur without the copyright owner's consent.

Moreover, the Ninth Circuit's two-step rule for applying § 109 to imported works does not solve the problem of foreign goods receiving greater protection than domestically-produced ones. According to the lower court, works made in the United States are subject to the first sale

doctrine, while goods made elsewhere are not. Rather than attempting to create a workable market by judicially creating a non-statutory exemption to a skewed reading of the statute, this Court should rationalize the law with its precedents and with practicable reality by insisting upon a proper reading of § 109.

B. The Ninth Circuit's Interpretation of "Lawfully Made Under this Title" is Inconsistent with its Use Throughout Title 17

As Petitioners have noted, the full phrase "lawfully made under this title" appears in two other contexts within Title 17. In each case, using the Ninth Circuit's interpretation of the phrase results in manifest absurdity, whereas understanding it as meaning "made not in contravention of Title 17" permits a logically consistent reading.

Section 110 of Title 17 provides copyright exceptions for specific educational uses. In particular, § 110(1) allows the performance or display of copyrighted works in a classroom setting. However, this exception is conditioned in part upon a two-pronged test: the copy used to make the performance or display must have been "lawfully made under this title," and the person responsible for the performance must not "kn[o]w, or ha[ve] reason to believe" that the copy "was not lawfully made." *See* 17 U.S.C. § 110(1).

If one assumes, as the Ninth Circuit does,

that "lawfully made under this title" requires that the copy at issue be manufactured domestically, then classrooms would find themselves unable to show foreign-made copies of works, provided that the instructor knew or had reason to believe that the works were not lawfully made. Stranger still is the fact that, under this awkward interpretation, an instructor could find herself liable for copyright infringement should she hold a *mistaken* belief that a work was not lawfully made even if it was lawfully made abroad and imported. If the first prong of the test merely requires a film be of foreign manufacture, and the second requires only a reason to believe the copy is unlawful, it would still be an infringement to show a legitimately made and imported work, if the instructor believed it to be an infringing reproduction.

Similar oddities arise from applying the Ninth Circuit's interpretation to the Audio Home Recording Act, which requires the producers of digital audio recording devices and digital audio media to pay a royalty to copyright holders whose works have been embodied in sound recordings "lawfully made under [Title 17]." *Audio Home Recording Act of 1992*, Pub. L. No. 102-563, 106 Stat. 4237 (codified at 17 U.S.C. §§ 1001(7), 1006(a) (1992)). Under the Ninth Circuit's interpretation of this phrase, no royalty payments could flow even to United States-based artists if copies of their works were manufactured overseas and imported through authorized channels for sale here. Such a result

is plainly inconsistent and must therefore be rejected.

CONCLUSION

For these reasons, the Court should grant the petition for a writ of certiorari.

Respectfully submitted,

Jeffrey Pearlman
Sherwin Siy
Gigi B. Sohn
Counsel of Record
Public Knowledge
1875 Connecticut Ave. NW
Suite 650
Washington, DC 20009
(202) 518-0020
Counsel for Amici Curiae

AMICUS CURIAE BRIEF

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IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF *AMICI CURIAE* RETAIL INDUSTRY LEADERS ASSOCIATION, NATIONAL ASSOCIATION OF CHAIN DRUG STORES, AMAZON.COM, INC., GAMESTOP CORP., MOVIE GALLERY, INC., QUALITY KING DISTRIBUTORS, INC., AND TARGET CORPORATION IN SUPPORT OF PETITIONER

SETH D. GREENSTEIN
CONSTANTINE CANNON LLP
1627 I Street N.W.
Washington, D.C. 20006
(202) 204-3500

Counsel for Amici Curiae

June 17, 2009

223466

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

QUESTION PRESENTED

Under the Copyright Act's "first sale" doctrine, codified at 17 U.S.C. § 109(a), the owner of any particular copy "lawfully made under this title" may resell that good without the authority of the copyright holder. In *Quality King Distribs., Inc.* v. *Lanza Research Int'l, Inc.*, this Court posed the question presented as "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies," and answered it in the affirmative. *Id.*, 523 U.S. 135, 138 (1998). In the decision below, the Ninth Circuit limited *Quality King* to its facts, and held that the first sale doctrine only would apply to goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first sale doctrine does not apply to imported goods lawfully manufactured abroad by the copyright owner; in statutory terms, whether in § 109(a) the phrase "lawfully made under this title" excludes lawful copies made by the copyright owner outside the United States?

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STATEMENT OF INTEREST[1]

Retail Industry Leaders Association ("RILA"), established in 1969 as the Mass Retailing Institute, represents the interests of retailers, product manufacturers, and service suppliers. Its 600 member companies include the largest and fastest growing companies in the retail industry, and account for more than $1.5 trillion in annual sales. RILA members provide millions of jobs and operate more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.

National Association of Chain Drug Stores ("NACDS") represents the largest component of pharmacy practice in the United States – retail chain community pharmacies, including chain drug stores, and supermarket and mass retail pharmacies. Founded in 1933, today NACDS membership consists of more than 170 chain community pharmacy companies operating more than 39,000 retail community pharmacies, as well as nearly 1,000 suppliers of goods and services to chain community pharmacies. Annual sales of NACDS retail members total more than $750 billion, including $250 billion in prescription medicines, over-the-counter medications, and health and beauty aids.

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[1] The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae*, their respective members, or their counsel made a monetary contribution to its preparation or submission.

Amazon.com, Inc. was incorporated in 1994, with its principal corporate offices located in Seattle, Washington. Amazon.com started selling books online in 1995, out of the belief that only the Internet could offer the convenience of browsing millions of book titles in a single sitting. Today, Amazon.com offers for sale via its websites in the United States and foreign countries a broad array of entertainment, electronic, and household products. Since 1999, when Amazon.com offered its e-commerce platform to other retailers and to individual sellers, hundreds of thousands of world-class retail brands and individuals have sold goods to tens of millions of customers through the Amazon.com e-commerce platform.

GameStop Corp. is the world's largest video game retailer, selling new and used video game software, hardware and accessories. The company operates over 6,200 stores in the United States and throughout the world. GameStop owns two successful e-commerce retail sites and the largest multi-platform video game publication in the United States. Headquartered in Grapevine Texas, GameStop is a Delaware company traded on the New York Stock Exchange with over 45,000 employees.

Movie Gallery, Inc. is the second largest North American home entertainment specialty retailer, with approximately 3,270 retail stores, located throughout North America that rent and sell DVDs, Blu-ray discs, video games, concessions, and entertainment-related retail items. Its eastern-based Movie Gallery and western-based Hollywood Video branded stores combine to cover urban, rural and suburban markets nationwide.

The Game Crazy branded locations are dedicated game retail departments to buy, sell and trade new and used video game hardware, software and accessories. Movie Gallery, a Delaware corporation, was incorporated in 1994.

Quality King Distributors, Inc. ("QKD") is a family-owned wholesale distributor of health, beauty and cosmetics products, located in Bellport, N.Y. Founded in 1961 in a storefront in Queens, New York, QKD has become one of the largest privately-held businesses in the tri-state area surrounding New York City. QKD's customer base includes most of the mass retail chains including drug store chains, mass discount chains, grocery chains, and independent stores. QKD ships to customers in all 48 of the contiguous states as well as the District of Columbia. Notably, QKD was the petitioner in *Quality King*, in which the Court last had occasion to address the application of the first sale doctrine of the Copyright Act to imported goods incorporating ancillary copyrighted works.

Target Corporation, headquartered in Minneapolis, Minnesota, is a leader in discount retailing, offering stylish merchandise at affordable prices. The first Target store opened in Roseville, Minnesota, in 1962, as the first mass market discount retail store opened by The Dayton Company – a company that traces its heritage back more than 115 years to the first stores opened in downtown Minneapolis by its founder, George Dayton. Today, Target operates approximately 1,700 stores in 49 states, and employs approximately 350,000 people nationwide. Through its website, Target.com, Target offers for sale and home delivery a wide variety

of books, music, videos, household, and health and beauty products.

The *amici* exemplify wholesale and retail commerce in the 21st century. These *amici* and their members include suppliers, importers, purchasers, and retailers that produce, buy, and resell domestic and imported consumable and durable goods to businesses and the public. They encompass the largest retailers in the United States and the world. They reach consumers through the brick and mortar stores located in urban, suburban, and rural communities, and the largest retail presence in cyberspace. Through online retail, they enable anyone to sell goods around the country and the world. In short, the *amici* make their physical home in every community, and virtually are as close as your laptop computer.

These companies also include many of America's largest retailers of copies of copyrighted works such as books, DVDs, video games, and compact discs.

Their customers rely on these retailers for the availability of high quality goods at reasonable prices. Thus, the *amici* have an interest, directly as to themselves and indirectly on behalf of consumers, in maintaining robust interstate and international commerce guaranteed under the first sale doctrine of United States copyright law.

As product manufacturing increasingly moves offshore, a substantial percentage of the products retailers offer for sale in the United States are produced and first sold abroad and imported. The raison d'être

for wholesale importers and distributors is to find their customers the best possible discount pricing on goods to be resold at retail. Retailers need confidence that lawfully-produced goods they purchase from importers and distributors can be resold in United States commerce free from claims of copyright infringement.

Similarly, consumers have the right to purchase goods at discount prices free of constraints on their property rights. A major part of the value proposition retailers offer the public is the right to lend, give away, or resell the goods they purchase. The broad availability of used books, CDs, vinyl records, and DVDs offered for resale on Amazon.com, or previously-owned video games offered by GameStop and Movie Gallery, demonstrates the economic value of the aftermarket.

The principles underlying the first sale doctrine are of vital interest to suppliers, retailers, and their customers. Therefore, in support of the proper interpretation of the first sale doctrine by the Petitioner Costco, the *amici* submit this brief to inform the Court of the potentially destructive impact of the Ninth Circuit's decision upon modern commerce, and to urge the Court to grant certiorari in this important case.

ARGUMENT

The Ninth Circuit decision, *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) threatens the right of retailers and consumers to be free from copyright restraints upon lawfully-produced imported goods offered for resale in the United States. It rewrites the first sale statute so as to limit its scope only to goods

produced in the United States, to the detriment of American businesses and consumers that benefit from discount pricing of authentic parallel imported goods. The decision contravenes the principles of the first sale doctrine as most recently articulated by the Supreme Court. Such an interpretation neither is required by nor consistent with the plain language of 17 U.S.C. § 109; and, moreover, conflicts with sound copyright policy.

For these reasons, as set forth below, the petition should be granted.

I. THIS COURT SHOULD GRANT THE PETITION TO SAFEGUARD THE FIRST SALE DOCTRINE AND PRESERVE LAWFUL COMMERCE IN GENUINE PARALLEL IMPORTED GOODS.

To consumers and retailers, the first sale doctrine is the Magna Carta of property rights and open commerce in copies of copyrighted works. As interpreted by this Court, the first sale doctrine ensures to businesses and individuals the right to acquire and resell goods produced by the copyright owner regardless of whether the goods first were produced in the United States or imported from abroad.

In *Quality King Distribs., Inc. v. Lanza Research Int'l Inc.*, 523 U.S. 135 (1998), this Court analyzed the interaction of §§ 106, 109, and 602 of the Copyright Act, and held the importation prohibitions of § 602(a) are "simply inapplicable" to both domestic and foreign owners of lawfully-made products imported for resale in the United States. *Id.*, 523 U.S. at 145. Upon the first

sale, even unauthorized resales do not infringe the copyright owner's exclusive right to distribute. *Id.* at 143. "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Id.* at 152.[2]

Quality King gave full force to the first sale doctrine by placing retailer and consumer first sale rights beyond the reach of the copyright owner:

> After the first sale of a copyrighted item "lawfully made under this title," any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an "owner" of that item. Read literally, § 109(a) unambiguously states that such an owner "is entitled, without the authority of a copyright owner, to sell" that item.

Id., 523 U.S. at 145.

By affirming the primacy of the first sale doctrine over the importation ban, the Court granted a crucial victory to commercial businesses and consumers alike. Retailers cannot reasonably know the full provenance of each of the thousands of lawfully-produced goods they sell. Goods may be bought and resold several times

[2] *Cf. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2115 (2008) ("[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item").

before reaching retail shelves. Commonly, retailers acquire products not directly from the manufacturers, but through exporters, importers, and trading companies who, in turn, also may not deal directly with the manufacturers. Often these sources find authentic goods abroad for lower prices, and sell them to discount retailers in the United States. As a result, consumers buy the same quality goods but at lower prices.

As an example, *amicus* QKD distributes products to the wholesale and retail trade. To provide its customers with the lowest available prices, QKD sources products in both domestic and foreign markets. QKD often sells these goods to consumers at discount prices in competition with manufacturers or "authorized" distributors that would prefer to price discriminate and charge higher prices. Those were the facts of *Quality King* – the case which QKD brought before this Court to vindicate its right to sell, under the first sale doctrine, lawfully-produced imported goods it had purchased abroad.

The value of parallel imported goods sold annually in the United States represents a multibillion-dollar benefit to American consumers.[3] *Omega* clearly would

[3] For example, a 2008 white paper prepared for an association opposed to parallel importation estimated $58 billion annually in parallel importation activity. *See* "Effective Channel Management is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line," http://www.agmaglobal.org/press_events/press_docs/KPMG %20AGMAGrayMarketStudyWebFinal071008.pdf

choke off parallel importations, but in fact it goes much further. It applies to any copies or phonorecords of copyrighted works, and any goods incorporating a copy of a copyrighted work, manufactured outside the United States. On its face, the Ninth Circuit decision eliminates the first sale doctrine for all items made outside the United States, *even if manufactured, imported, and sold in the United States by or with authority of the copyright owner.*

Thus, under *Omega*, every retailer and consumer is potentially at risk of copyright infringement liability for transferring possession or title to any foreign-manufactured goods – including injunctive relief, seizure and loss of inventory, statutory damages (ranging from $750 to $150,000 per work), and payment of both plaintiff's and its own litigation costs and attorney fees.[4]

The principles announced in *Quality King* relieve retailers from unknown and unknowable infringement risks that jeopardize their businesses. This Court, in the analogous context of patent exhaustion, has acknowledged the threat to free commerce from such uncertain liability, and the important role of the

[4] *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994) ("the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer"); *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978) ("even an unwitting purchaser who buys a copy in the secondary market can be held liable for infringement if the copy was not the subject of a first sale by the copyright holder").

exhaustion doctrine in securing commerce and personal property rights:

> one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. . . . *The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.*

Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 666-667 (1895) (emphasis added). Businesses need bright line rules to avoid the "disastrous or even lethal consequences" of infringement suits:

> businessmen are certainly entitled to know when they are committing an infringement. . . . But to what avail these congressional precautions if this Court, by its opinions, would subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them. . . .[5]

In past cases, the Ninth Circuit acknowledged how an overbroad interpretation of § 602(a) would impose

[5] *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 358 (1961) (Black, J., concurring).

undue burdens and financial risks against lawful commerce:

> [E]very little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back.

Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp., 97 F3d 377, 380 (9th Cir. 1996). While the *Disenos* court recognized that the "impracticality of the burden" raised troubling questions as to the correct interpretation of §§ 109 and 602, in that case it found no occasion to decide them.

The Ninth Circuit repeatedly has been faced with these same troubling questions pertaining to the copyright importation right. *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), received almost-immediate criticism, even from the Ninth Circuit itself. As the court observed just three years later, *BMG Music* literally would give "foreign manufactured goods . . . greater copyright protection than goods manufactured in the United States" – a result it characterized as "absurd and unintended." *Parfums Givenchy, Inc.*, 38 F3d at 482 n.8. Two years later, the court acknowledged that *BMG Music* was the target of "widespread criticism" from courts and legal scholars. *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir. 1996).

In the case leading to the Supreme Court decision in *Quality King*, the Ninth Circuit again conceded that legal commentators considered *BMG Music* a "flawed" decision. *Lanza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1115 (9th Cir. 1996), *rev'd on other grounds*, 523 U.S. 135 (1998). And, presaging the need to resolve these issues, the Ninth Circuit reflected in *Disenos*: "The impracticality of the burden [plaintiff] would have us impose on the retailers gives us pause about whether its reading of *Parfums Givenchy* and *BMG Music* is correct." 97 F.3d at 380.

Quality King resolved these questions in favor of exhaustion. But in *Omega*, the Ninth Circuit reached the opposite conclusion. Because its prior decisions were not "clearly irreconcilable" with this Court's decision in *Quality King*, the Ninth Circuit effectively narrowed *Quality King* to its facts. *Omega*, 541 F.3d at 987-990. As a result, the decision creates substantial uncertainty among retailers and distributors, who must now weigh the consequences of selling any imported product that could have a copyrightable label, logo, or product insert – *i.e.*, virtually every product in their stores.

Omega also ignored how, as a matter of policy, a domestic manufacturing requirement burdens commerce and consumer welfare. As noted above, the "made in the U.S.A." rule absurdly applies to all copies of copyrighted works manufactured outside the United States – regardless if the copyright owner manufactured, imported into the United States, and sold the goods to a reseller or ultimate consumer. Suppose a copyright owner duplicates its DVD movie discs in Mexico, and imports and sells them in the United States.

Despite that the lawful copy was imported and sold by the copyright owner itself, under the Ninth Circuit interpretation, the first sale doctrine could not apply simply because the copy was not "lawfully made" *in* the United States. Consequently:

- Video stores that today purchase multiple copies of a movie during its initial release would no longer be able to engage in the common practice of reselling most of the copies as "previously viewed" disks for a much lower price.

- An individual consumer could watch the movie, but could not lend it to a friend, resell it online, or give it away as a present.

Thus, *Omega* imposes on businesses and consumers the precise restraints against free disposition of personal property that the first sale doctrine was intended to prohibit.[6]

If § 602 is interpreted to prevent importation of goods lawfully made by the copyright owner, the retail industry can have little confidence to sell nonpiratical goods acquired from an independent exporter or importer. Indeed, despite *Quality King*, given the practical difficulties in assuring the lineage of imported goods, retailers even would be at risk to re-import goods

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[6] Although a court might infer a right to resell via an implied license, the crux of the first sale doctrine is that it applies "without the authority of the copyright owner" – even over the copyright owner's objection.

produced in the United States. Where, as here, the copyright owner places no copyright notice on the goods, retailers have no reasonable way to ascertain whether goods are protected by copyright. And the risks are all the more egregious where, as in *Omega*, the copyrighted work is ancillary to the goods consumers purchase — and irrelevant to the reasons for the purchase.

The harm to consumers is equally obvious. Where retailer competition is subjugated to copyright owner price controls, the results are fewer imported goods offered at retail, in fewer retail outlets, and artificially inflated prices to consumers. And *Omega* likewise would stifle the burgeoning aftermarket for used books, CDs, DVDs, video games, and other works subject to copyright protection.

Thus, the *amici* urge this Court to grant the petition in this case so as to again set the first sale doctrine aright.

II. PETITIONER'S CASE IS A PROPER VEHICLE TO ADDRESS THESE VITAL ISSUES.

The question presented flows directly from *Quality King*. At the time of *Quality King*, a split existed among the circuits as to the proper interpretation of §§ 106(3), 109(a), and 602 of the Copyright Act. The Ninth Circuit based its decision in *Omega* on pre-*Quality King* decisions of that court and other circuits, and limited the reach of *Quality King* itself. Thus, the prior split among the circuits remains the root cause for the petition.

Even with no direct split among the circuits, the *amici* believe this case is a proper and timely vehicle to protect the first sale doctrine.

First, this case presents a paradigmatic scenario for the Court to squarely address the issues. This same basic fact pattern – whether the first sale doctrine trumps the use of an ancillary copyrightable element to exploit the importation statute – already has been addressed once by this Court, and has been replayed numerous times in courts in other jurisdictions over the decade since *Quality King* was decided. Yet, only in rare instances will a defendant have the wherewithal to mount an appeal to the circuit courts, no less to the Supreme Court. The typical case involves suits by a major manufacturer against a small or impecunious defendant.[7] Such cases rarely, if ever, proceed past summary judgment. The threat to a small retailer far outweighs the potential profit to be gained by offering relatively small discounts on imported goods.[8] Given

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[7] *Microsoft Corp. v. Intrax Group, Inc.*, No. C-07-1840, 2008 WL 4500703 (N.D. Cal. Oct. 6, 2008); *Pearson Educ., Inc. v. Liao*, No. 07-CIV-2423, 2008 WL 2073491 (S.D.N.Y. May 13, 2008); *Microsoft Corp. v. Big Boy Distribs. LLC*, 589 F. Supp. 2d 1308 (S.D. Fla. 2008); *Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245 (S.D. Fla. 2006); *Lingo Corp. v. Topix, Inc.*, No. 01-CIV-2863, 2003 WL 223454 (S.D.N.Y. Jan. 31, 2003).

[8] Where parallel import cases have been litigated and lost, the impact on defendants is as unpredictable as it is significant. *See, e.g., Tesco falls as Levi's court case is lost*, BRAND REPUBLIC, Nov. 20, 2001, http://www.brandrepublic.com/news/15134/tesco-falls-levis-court-case-lost (reporting the 1.1% fall in Tesco shares immediately following a loss in a parallel import case against Levi's in the European Court of Justice, Case T-415/99 *Levi Strauss v. Tesco Stores*).

these risks, many retailers would simply forego the opportunity to purchase and sell certain imported goods.

Second, the cumulative impact of price discrimination to consumers and the economy is enormous. Unless the decision is reversed, the drain on consumers and the American economy could reach billions of dollars in higher prices for goods that could have been purchased more cheaply through parallel importation. That impact will become more pervasive, and more costly, given the rapid growth of commerce in new parallel imports and used imported goods via online retail and resale. According to figures in the United States Department of Commerce 2009 Statistical Abstract, online retail sales in 2006 totaled more than $106.5 billion, and constituted approximately 2.7% of all retail sales in the United States.[9] By 2012, the Abstract projects online retail sales to reach more than $334.7 billion.[10] The *amici* thus are concerned the erroneous holding of the Ninth Circuit could short-circuit the growth of online commerce, disrupting the myriad daily online transactions of corporate retailers and individual online sellers.

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[9] http://www.census.gov/compendia/statab/tables/09s1013.pdf

[10] http://www.census.gov/compendia/statab/tables/09s1015.pdf Statistics from eBay, Inc. further illustrate the growth, velocity and significance of online commerce. *See* eBay, Inc., *eBay Marketplaces Fast Facts at a Glance*, March 31, 2009, http://files.shareholder.com/downloads/EBAYPRESS/661446397x0x223370/C99E1580-C708-46FA-A1B5-3FB94A64ABB2/eBayMarketplacesFastFacts.pdf

Third, the Ninth Circuit's erroneous holding already is taking hold across the country.[11] If this Court does not address the issues at this time, potential plaintiffs may become increasingly emboldened to exploit the shrinking scope of the first sale doctrine so as to attack otherwise lawful parallel imports.

Thus, the *amici* respectfully submit that this case presents a timely, representative case to address the issue.

III. THE NINTH CIRCUIT'S INJECTION OF A DOMESTIC MANUFACTURING REQUIREMENT INTO SECTION 109 IS ERRONEOUS AS A MATTER OF LAW.

The petition concerns the proper interpretation of five words – "lawfully made under this title" – in § 109 of the Copyright Act. Under that codification of the first sale doctrine, transfer of title to a copy of a work exhausts the intangible copyright interest in further distribution of the tangible article, such that the owner of a copy is entitled to sell or otherwise dispose of it without the authorization of the copyright owner; indeed, even over the copyright owner's objection.[12]

[11] *See Microsoft Corp. v. Intrax Group, Inc.*; *Microsoft Corp. v. Big Boy Distribs. LLC.*

[12] Section 109, entitled "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord," provides in pertinent part:

> (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord

(Cont'd)

Thus, as the Court held in *Quality King*, the first sale doctrine limits, for the benefit of the public and domestic commerce, the right of a United States copyright owner to prohibit importation into the United States under § 602(b). Goods purchased abroad that are "lawfully made under this title" can be freely imported into the United States, and sold and resold, without infringing any copyright.

Under the plain language of § 106, which governs whether a copy has been "lawfully made," a reproduction is lawful if made by or under the authorization of the United States copyright owner.[13] Nowhere does § 106 require that the copy also be made in the United States.

Thus, under the language of the statute, the place of manufacture does not matter. Any item lawfully made by or with the authority of the United States copyright

(Cont'd)

> lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

[13] Section 106 provides, in pertinent part:

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords; . . . .

owner is made "under this title" and, under *Quality King*, the first sale doctrine applies.

The Ninth Circuit ignored these principles and instead restricted *Quality King* to its facts. The Panel viewed *Quality King* as affirming the scope of the first sale statute only in context of a "round trip" importation of goods first manufactured in the United States. *Omega*, 541 F3d at 987. However, in even its most narrow recitation of the question presented, this Court indicated its intention in *Quality King* to articulate a principle of law, not just a determination on the facts: "More narrowly, the question is whether the 'first sale' doctrine endorsed in §109(a) is applicable to imported copies." *Quality King*, 523 U.S. at 138. Thus, this Court characterized its own decision as resolving a general legal principle: that the first sale doctrine does apply to imported lawfully-made copies of a copyrighted work. The Ninth Circuit opinion cannot be squared with §109(a) and *Quality King*.

Similarly, the appellate court attributed too great weight to the two-sentence concurrence of Justice Ginsberg (limiting her affirmative vote to the facts of the case). Had the concurrence represented the views of the unanimous Court, it could have been incorporated in the unanimous opinion. Had it represented the views of any other Justice, her concurrence could have been joined by one or more Justices. With utmost respect, a concurrence by a single justice should not be presumed to represent the views of an otherwise unanimous Court. That is particularly true where the Court's own articulation of the question decided in *Quality King* had a broader scope.

Omega voiced concern that a plain meaning interpretation would result in an extraterritorial application of United States copyright law. But contrary to the Panel's view, copyright law is not applied extraterritorially when applied to a domestic copyright owner, like Omega, over whom the court clearly had jurisdiction. Because the act of manufacturing occurred under the protection of § 106 of the Copyright Act, it rendered the copies "lawfully made" under §109.

These facts contrast with the extraterritorial concerns discussed by this Court in *Quality King*; *i.e.*, where a domestic copyright owner separately assigned book publication rights to British and United States publishers under their countries' respective laws. 523 U.S. at 148. In that scenario, first sale of a book made under British copyright law could not exhaust the importation right in the United States.[14] Here, however, the domestic copyright owner itself produced the watches with the copyrighted logo. Because that manufacture was lawful under the Copyright Act, these lawfully-made copies also could lawfully be imported.

In sum, the Ninth Circuit decision finds no support in the language of § 109(a) or the Copyright Act, and runs contrary to the broader principles enunciated by this Court in *Quality King*. The Court should grant the petition.

[14] *Cf. Boesch v. Graeff*, 133 U.S. 697 (1890) (importation of foreign lamps, lawfully made in Germany by manufacturer other than the patent holder, infringed rights of United States patent assignee).

IV. COPYRIGHT POLICY SUPPORTS THE APPLICATION OF THE FIRST SALE DOCTRINE TO GOODS LAWFULLY MADE ABROAD.

Amici and their members collectively sell annually hundreds of millions of copyrighted books, compact discs, DVDs, and video games. For copies of copyrighted works manufactured and sold at retail in the United States, it is a relatively simple matter to ensure that the copies offered for sale are authentic and not infringing. Less obvious is where the goods were manufactured, and how they were first acquired and resold (often more than once) before reaching the retailer's shelves or webpages.

Hundreds of thousands of other products sold by the *amici* members include material ancillary to the purchased goods, such as product labels or package inserts. As is the case with the watches at issue here, the goods themselves neither are purchased for their copyrighted content nor are intrinsically identifiable as copies of copyrighted works. Given the low threshold for copyright protection, as a cursory search through the online records of the U.S. Copyright Office demonstrates, copyright registrations routinely are granted for packaging, logos, labels, and product inserts for everyday packaged goods from floor cleaners and health and beauty products to breakfast cereals. The consumer's interest is in the goods, not whether the packaging is an expressive copyrighted work.

The concern of the *amici* is not that these registrations are issued, but rather how these

registrations can be and, as in this case, have been leveraged improperly to achieve commercial aims unrelated to any intrinsic value of copyrighted expression that purportedly is the object of protection. In *Quality King*, the plaintiff used a copyright on a label of hair care products to attack discount-priced competition from lawfully-made re-imported products. Other product manufacturers have sought to exploit copyright registration of essentially functional items as a means to stifle low-priced competition from sales of authentic parallel-imported goods. *See, e.g.*, *Denbicare U.S.A. Inc.* (packaging for reusable diapers); *Parfums Givenchy* (box for perfume).

Omega had designs to leverage the power of copyright law to prevent otherwise lawful parallel importation and to price discriminate between foreign and domestic retail sales — not to obtain a return on the copyrighted work itself. Omega admits it engraves the globe symbol on its watches to serve a policing function, not an aesthetic purpose. It is an enforcement tool against discount sellers of parallel imported goods. Thus, Omega's use of the globe is palpably no different than a non-copyrightable holographic seal on a compact disc or DVD movie.

The first sale doctrine plays a fundamental role to secure the rights to sell at retail in the United States and to dispose thereafter of lawfully-made goods legally acquired abroad. In today's global and online economy, it is impossible to overstate the potential disruptive impact on commerce if companies cannot import and sell goods lawfully made abroad consistent with United

States copyright law, and consumers cannot transfer ownership of their property.

Moreover, a domestic manufacturing requirement creates perverse incentives for United States copyright owners to produce all copies of their copyrighted works outside the United States. The impact of such a holding could be particularly far-reaching in cases, such as this, where a copyrighted symbol, label, or package design can be applied to virtually any goods offered for sale in the United States.[15] No copyright or public policy would be served by the potential losses of jobs and tax revenue, or the manifest disadvantages to consumer and commercial interests.

Applying the first sale doctrine only to domestically-produced goods also unfairly advantages foreign owners

---

[15] Producers of copyrighted works also have attempted, in the past and present, to preserve their ability to price discriminate despite the first sale doctrine. Amidst the controversy leading to this Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), motion picture producers sought unsuccessfully to amend § 109 to prevent commercial rental of videotapes by independent rental businesses. H.R. 5707, 97th Cong. (1982). *See* Peter S. Menell, *The Property Rights Movement's Embrace of Intellectual Property: True Love or Doomed Relationship?*, Paper 36 (2007), eScholarship Repository, Berkeley Center for Law and Technology, *http://repositories.cdlib.org/bclt/lts/36*. Recently, Redbox Automated Retail, LLC, which provides kiosks for $1 discount DVD rentals, sued a motion picture studio for restricting certain distributors from supplying them with DVD discs. *See Redbox Automated Retail, LLC v. Universal Studios Home Entm't., LLC*, Case 1:08-cv-00766-UNA (D. Del. filed Oct. 10, 2008).

of United States copyrights over United States copyright holders. In *Parfums Givenchy*, the Ninth Circuit considered commentators' justifiable critiques of the "absurd and unintended" and "undesirable" results from *BMG Music*, which would have accorded first sale protection "only to copies legally made and sold in the United States." 38 F.3d at 482 n.8, *citing BMG Music*, 952 F.2d at 319. The Ninth Circuit concluded that denying first sale rights to foreign made goods would contravene both the language of the statute and public policy:

> This would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States. We agree that such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation.

Id.

Moreover, under *Omega* any purchaser of a foreign-produced copyrighted work – even if made with the express authority of the copyright owner – could lose the right to dispose of the property in any manner by resale, gift, or lending, without being branded an infringer.

No copyright policy is served by preventing importation and resale of goods that have been lawfully produced by or with the copyright owner's authorization. While a copyright owner is entitled to a payment for its creative expression, it receives that royalty incentive from the first sale of a copy of its copyrighted work. Omega, as holder of the United States copyright, authorized the sale to the first purchaser. Under § 109 it exhausted fully its copyright interest in further disposition of those goods.

Finally, in that regard there can be no contention that parallel importation deprived Omega of the full reward for its copyright. The copy of the copyrighted work at issue in this case is a half-centimeter engraving on the underside of the watch, potentially visible only when one is not wearing it. Such is hardly the stuff of which "bling" is made. The $700 surcharge by Omega over the Costco price results from price discrimination, not a royalty for the intrinsic copyright value of the globe symbol. Indeed, Omega admits it engraved the symbol on the watch for its sole benefit as a tool for enforcement, not for ornamentation or expression. No copyright policy supports leveraging a copyright solely to effectuate price discrimination.

CONCLUSION

The petition for writ of certiorari should be granted.

Respectfully submitted,

SETH D. GREENSTEIN
CONSTANTINE CANNON LLP
1627 I Street N.W.
Washington, D.C. 20006
(202) 204-3500

Counsel for Amici Curiae

JOINT APPENDIX

No. 08-1423

In The
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

JOINT APPENDIX

MICHAEL K. KELLOGG
Counsel of Record
AARON M. PANNER
KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C.
1615 M Street, N.W.
Suite 400
Washington, D.C. 20036
(202) 326-7900
mkellogg@khhte.com

Counsel for Respondent Omega, S.A.

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500
renglert@robbinsrussell.com

Counsel for Petitioner Costco Wholesale Corporation

[Additional Counsel Listed On Inside Cover]

Petition For Certiorari Filed May 18, 2009
Certiorari Granted April 19, 2010

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
OR CALL COLLECT (402) 342-2831

MATTHEW C. WAGNER
JESS M. COLLEN
THOMAS P. GULICK
COLLEN IP
The Holyoke-Manhattan Building
80 South Highland Ave.
Ossining, NY 10562
(914) 941-5668

Counsel for Respondent Omega, S.A.

NORMAN H. LEVINE
AARON J. MOSS
GREENBERG GLUSKER FIELDS CLAMAN & MACHTINGER LLP
1900 Ave. of the Stars
Los Angeles, CA 90067
(310) 553-3610

Counsel for Petitioner Costco Wholesale Corporation

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Order and Judgment, *Omega, S.A. v. Costco Wholesale Corp.*, Case No. CV-04-5443 TJH (RCx) (C.D. Cal. Feb. 6, 2007) 18a

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UNITED STATES DISTRICT COURT,
CENTRAL DISTRICT OF CALIFORNIA
(Western Division – Los Angeles)
CIVIL DOCKET FOR CASE #:
2:04-cv-05443-TJH-RC

Date Filed	#	Docket Text
07/14/2004	1	COMPLAINT against defendant Costco Wholesale Corporation. (Filing fee $ 150.) Jury Demanded , filed by plaintiffs Omega SA, Swatch Group (US)' Inc.(rrey,) (Entered: 07/21/2004)
07/28/2004	4	NOTICE OF MOTION AND MOTION for Preliminary Injunction;; memorandum filed by plaintiff Omega SA, Swatch Group (US) Inc. Motion under submission 8/24/2004 before Honorable Terry J. Hatter Jr. (lc,) Modified on 7/30/2004 (lc,) (Entered: 07/30/2004)
07/28/2004	5	DECLARATION of Courtney Grafeld in support re MOTION for Preliminary Injunction 4 filed by plainitffs Omega SA, Swatch Group (US) Inc. (lc,) (Entered: 07/30/2004)
07/28/2004	6	DECLARATION of Robert Emmons in support re MOTION for Preliminary Injunction 4 filed by plaintiff Omega SA, Swatch

		Group (US) Inc. (lc,) (Entered 07/30/2004)
07/28/2004	7	DECLARATION of Timothy Santoni in support re MOTION for Preliminary Injunction 4 filed by plaintiff Omega SA, Swatch Group (US) Inc. (lc,) (Entered: 07/30/2004)
08/30/2004	10	ANSWER to Complaint – (Discovery) 1 filed by defendant Costco Wholesale Corporation.. (jp,) (Entered: 08/31/2004)
08/30/2004	12	MEMORANDUM OF POINTS AND AUTHORITIES in Opposition to MOTION for Preliminary Injunction 4 filed by defendant Costco Wholesale Corporation. (jp,) (Entered: 08/31/2004)
09/03/2004	13	REPLY Memorandum of Points and Authorities in support of Motion for Preliminary Injunction 4 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (ir) (Entered: 09/08/2004)
09/20/2004	14	OPPOSITION to (Proposed) Order granting MOTION for Preliminary Injunction 4 filed by Defendant Costco Wholesale Corporation. (shb,) (Entered: 09/23/2004)
10/08/2004	15	PRELIMINARY INJUNCTION by Judge Terry J. Hatter Jr: Court has considered Plaintiffs motion for a preliminary injunction 4. Defendant Costco Wholesale

Corporation, its officers, directors, principals, agents, representatives, employees, successors and assigns and all those acting in concert or participation with them be and hereby are Preliminary Enjoined regarding Omega Globe Design. Costco. shall (1) Inventory with serial numbers and deliver to the substitute custodian within ten business days from the date of this order any copies of or good bearing the Omega Design in its possession, custody or control with written notice of the same to the Court. (2) Inventory with serial numbers and deliver to the substitute custodian, within ten business days from the date Costco or any of its agents, employees or other controlled by them or acting on their behalf or in concert with them obtains the possession, custody or control of any further copies or goods bearing the Omega Globe Design with written notice of the same to the Court. Substitute custodian ' shall be David S Richman of Stephan Oringher Richman and Theodora. This Preliminary Injunction shall be effective upon Plaintiffs posting of a $50,000.00 bond. (ir,) (Entered: 10/12/2004)

07/29/2005	52	NOTICE OF MOTION AND MOTION for Leave to to Amend Answer to Add Affirmative Defense; Memorandum of points and authorities; Declaration of Aaron j Moss in support thereof filed by Defendant Costco Wholesale Corporation. Motion set for hearing on 8/22/2005 at 10:00 AM before Honorable Terry J. Hatter Jr. Lodged proposed order and proposed 1st Amended Answer. (shb,) (Entered: 08/04/2005)
08/08/2005	54	MEMORANDUM of Points and Authorities in Opposition to Defendants Motion for Leave to Amend its Answer to Add Affirmative Defense 52 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (ir,) (Entered: 08/11/2005)
08/08/2005	55	DECLARATION of Matthew C Wagner in support of Plaintiffs Opposition to Defendants Motion for leave to Amend its Answer to Add Affirmative Defense 52 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (ir,) (Entered: 08/11/2005)
08/15/2005	57	REPLY MEMORANDUM in Support of MOTION for Leave to to [sic] Amend Answer to Add Affirmative Defense 52 filed by defendant, Costco Wholesale

		Corporation. (sv) (Entered: 08/23/2005)
09/01/2005	58	ORDER by Judge Terry J. Hatter Jr: Defendant Motion for Leave to file an amended answer 52 is DENIED. (ir,) (Entered: 09/02/2005)
10/17/2005	61	NOTICE OF MOTION AND MOTION for Leave to File First Amended Complaint; Memorandum of Points and Authorities (REDACTED PUBLIC VERSION) filed by Plaintiffs Omega SA, Swatch Group (US) Inc. Motion set for hearing on 11/7/2005 at 10:00 AM before Honorable Terry J. Hatter Jr. Lodged Order and Proposed First Amended Complaint. (ir,) (Entered: 10/21/2005)
10/17/2005	66	DECLARATION of Matthew C Wagner in support of Plaintiffs Motion for Leave to file First Amended Complaint 61 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (ir,) (Entered: 10/21/2005)
10/24/2005	70	MEMORANDUM of Points and Authorities in Opposition to Plaintiffs Motion for Leave to file First Amended Complaint 61; Declaration of Aaron J. Moss in support thereof filed by Defendant Costco Wholesale

		Corporation. (ir,) (Entered: 10/26/2005)
10/31/2005	71	REPLY in support of MOTION for Leave to file first amended complaint 61 filed by plaintiffs Omega SA, Swatch Group (US) Inc. Lodged proposed order (lc,)(Entered: 11/03/2005)
10/31/2005	72	DECLARATION of Matthew C Wagner in support of Reply in support of MOTION for Leave to file first amended complaint 61 filed by plaintiffs Omega SA, Swatch Group (US) Inc. (lc,) (Entered: 11/03/2005)
11/07/2005	81	FIRST AMENDED COMPLAINT (REDACTED PUBLIC VERSION) against Defendants Costco Wholesale Corporation amending Complaint (Discovery) 1 filed by Plaintiffs Omega SA, Swatch Group (US) Inc(ir,) (Entered: 11/30/2005)
01/12/2006	82	ORDER by Judge Terry J. Hatter Jr: Plaintiffs motion for leave to amend the complaint 61 is GRANTED. (ir,) (Entered: 01/13/2006)
03/06/2006	105	FIRST AMENDED COMPLAINT (UNREDACTED Pursuant to Order, document number 95.) against Defendants ENE Ltd, Costco Wholesale Corporation

		amending Complaint – (Discovery) 1, filed by plaintiffs Omega SA, Swatch Group (US) Inc. (jp,) (Entered: 03/20/2006)
06/09/2006	121	STIPULATION AND ORDER by Judge Terry J. Hatter Jr: Defendant ENE Ltd shall be permanently enjoined from the sale of any and all Omega brand goods. Defendant ENE Ltd be dismissed with prejudice from this action.(ir,) (Entered: 06/09/2006)
07/25/2006	136	ANSWER to First Amended Complaint 105 with Jury Demand. filed by Defendant Costco Wholesale Corporation.(ir,) (Entered: 07/27/2006)
08/16/2006	164	NOTICE OF MOTION AND MOTION to Strike Certain Affirmative Defenses in Defendants Answer, and for Attorney Fees against Defendants; Memorandum of Points and Authorities and Declaration of Matthew Wagner in support thereof filed by Plaintiffs Omega SA, Swatch Group (US) Inc. Motion taken under submission on 9/11/2006 at 09:30 AM before Judge Terry J. Hatter Jr. Lodged Proposed Order. (ir,) (Entered: 08/26/2006)

08/16/2006	165	DECLARATION of Matthew C Wagner in support of Plaintiffs Motio [sic] to strike certain affirmative defenses in defendants answer 164 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (ir,) (Entered: 08/26/2006)
08/28/2006	166	MEMORANDUM OF POINTS AND AUTHORITIES in Opposition to MOTION to Strike Affirmative Defenses 164 filed by defendant Costco Wholesale Corporation. (jp) (Entered: 09/08/2006)
08/28/2006	167	APPENDIX OF AUTHORITIES in support of Opposition to Plaintiffs MOTION to Strike Affirmative Defenses 164 filed by Defendant Costco Wholesale Corporation. (jp) (Entered: 09/08/2006)
08/28/2006	168	DECLARATION of AARON J. MOSS in support of defendant Opposition to Plaintiffs MOTION to Strike Affirmative Defenses 164 filed by defendant Costco Wholesale Corporation. (jp) (Entered: 09/08/2006)
08/29/2006	170	NOTICE OF ERRATA Regarding MEMORANDUM OF POINTS AND AUTHORITIES in Opposition to MOTION to Strike Affirmative Defenses 166 filed by Defendant Costco Wholesale

		Corporation. (jp) (Entered: 09/08/2006)
10/20/2006	175	NOTICE OF MOTION AND MOTION for Summary Judgment or in the alternative for Partial Summary Judgment filed by defendant Costco Wholesale Corporation. Motion set for hearing on 11/20/2006 at 09:30 AM before Judge Terry J. Hatter Jr. Lodged Judgment; Lodged Order and Lodged Statement of Uncontroverted Facts and Conclusiion of Law. (jp) (Entered: 11/04/2006)
10/20/2006	176	DECLARATION of AARON J. MOSS in support of defendant MOTION for Summary Judgment or in the alternative for Partial Summary Judgment 175 filed by defendant Costco Wholesale Corporation. (jp) (Entered: 11/04/2006)
11/06/2006	181	OPPOSITION to Defendant Costco Wholesale Corp Motion for Summary Judgment or in the alternative for Partial Summary Judgment 175 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (REDACTED PUBLIC VERSION) (ir,) (Entered: 11/21/2006)
11/06/2006	182	DECLARATION of Thomas P Gulick in opposition to Defendants Motion for Summary Judgment 175 filed by Plaintiffs

		Omega SA, Swatch Group (US) Inc.; Lodged Order (NON-SEALED PUBLIC VERSION) (ir,) Modified on 11/21/2006 (ir,). (Entered: 11/21/2006)
11/06/2006	183	STATEMENT of GENUINE ISSUES in opposition to Defendants Motion for Summary Judgment or in the alternative Partial Summary Judgment 175 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (REDACTED PUBLIC VERSION) (ir,) (Entered: 11/21/2006)
11/06/2006	184	DECLARATION of Sandra V Espinoza in opposition to Defendants Motion for Summary Judgment 175 filed by Plaintiffs Omega SA, Swatch Group (US) Inc. (ir,) (Entered: 11/21/2006)
11/13/2006	179	REPLY MEMORANDUM IN SUPPORT OF MOTION for Summary Judgment or in the alternative for Partial Summary Judgment 175 filed by defendant Costco Wholesale Corporation. (klg,) (Entered: 11/14/2006)
11/13/2006	180	EVIDENTIARY OBJECTIONS IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT OR IN THE ALTERNATIVE FOR PARTIAL SUMMARY JUDGMENT 175 filed by defendant Costco

		Wholesale Corporation. (klg,) (Entered: 11/14/2006)
11/21/2006	189	RESPONSE to Defendant Objection to the Declaration of Sandra V. Esponoza [sic] and Exhibit attached thereto in support of plaintiffs Opposition to Defendant Motion for Summary Judgment or in the alternative Partial Summary Judgment 180 filed by Plaintiff Omega SA. (jp) (Entered: 12/08/2006)
11/27/2006	188	STIPULATION AND ORDER: IT IS HEREBY ORDERED THAT 1)Swatch is hereby dismissed as a plaintiff to this action with prejudice pursuant to Rule 41 of the FRCP; 2)notwithstanding the dismissal of Swatch from this action all evidence that would have been admissible against Swatch if it were still a party to this action will be admissible against Omega for all purposes; 3)notwithstanding the dismissal of Swatch from this action Swatch may be treated by the Court for all purposes as if it were a party except that no relief shall be awarded in favor of Swatch; 4)as between Swatch and Costco each party shall bear its own costs and attorneys fees incurred in this action. However should Costco

seek attorneys fees and/or costs against Omega as prevailing party Omega shall not object to any amount sought on the ground that it related to the defense of the claims against Swatch only or to the claims against Omega and Swatch jointly; 5)the parties further agree that defendant withdraws its Ninth Affirmative Defense that necessary or indispensable parties have not been joined in this action. Swatch Group (US) Inc terminated. (klg,) (Entered: 12/01/2006)

12/05/2006 199 NOTICE OF MOTION AND MOTION for Summary Judgment filed by plaintiff Omega SA. Lodged proposed order and statement. (bp,) (Entered: 01/04/2007)

12/05/2006 200 DECLARATION of Raynard Aeschlimann in support of MOTION for Summary Judgment 199 filed by plaintiff Omega SA. (bp,) (Entered: 01/04/2007)

12/05/2006 201 DECLARATION of Sukuru Cital in support of MOTION for Summary Judgment 199 filed by plaintiff Omega SA. (bp,) (Entered: 01/04/2007)

12/05/2006 202 DECLARATION of David Polturak in support of MOTION for Summary Judgment 199 filed by

		plaintiff Omega SA. (bp,) (Entered: 01/04/2007)
12/05/2006	203	DECLARATION of Thomas P. Gulick in support of MOTION for Summary Judgment 199 filed by plaintiff Omega SA. (bp,) (Entered: 01/04/2007)
12/11/2006	190	SEALED DOCUMENT – NOTICE OF MOTION AND MOTION for Summary Judgment (klg,) (Entered: 12/12/2006)
12/11/2006	191	SEALED DOCUMENT – DECLARATION of Sukru Cital in support of MOTION for Summary Judgment 190 (klg,) (Entered: 12/12/2006)
12/11/2006	192	SEALED DOCUMENT – DECLARATION of David Polutrak in support of MOTION for Summary Judgment 190 (klg,) (Entered: 12/12/2006)
12/11/2006	193	SEALED DOCUMENT – DECLARATION of Thomas P Gulick in support of MOTION for Summary Judgment 190 (klg,) (Entered: 12/12/2006)
12/11/2006	194	SEALED DOCUMENT – DECLARATION of Raynald Aeschlimann in support of MOTION for Summary Judgment 190 (klg,) (Entered: 12/12/2006)

12/11/2006	195	SEALED DOCUMENT – STATEMENT OF UNCONTROVERTED FACTS AND CONCLUSIONS OF LAW in support of MOTION for Summary Judgment 190 (klg,) (Entered: 12/12/2006)
12/26/2006	206	MEMORANDUM of Points and Authorities in Opposition to Omega's Motion for Summary Judgment 199 filed by Defendant Costco Wholesale Corporation. (gk,) (Entered: 01/14/2007)
12/26/2006	207	RESPONSE to Plaintiff's Statement of Uncontroverted Facts and Conclusions of Law re Motion for Summary Judgment 199 filed by Defendant Costco Wholesale Corporation. (gk,) (Entered: 01/14/2007)
12/26/2006	208	EVIDENTIARY OBJECTIONS in Support of Opposition to Plaintiff Omega S.A.'s Motion for Summary Judgment 199 filed by Defendant Costco Wholesale Corporation. (gk,) (Entered: 01/14/2007)
12/26/2006	209	DECLARATION of Aaron J. Moss in Support of Opposition to Motion for Summary Judgment 199 filed by Defendant Costco Wholesale Corporation. (gk,) (Entered: 01/14/2007)

12/26/2006	246	SEALED DOCUMENT – DECLARATION OF AARON J MOSS IN SUPPORT OF DEFENDANT COSTCO WHOLESALE CORPORATIONS OPPOSITION TO MOTION FOR SUMMARY JUDGMENT 199 (klg,) Modified on 2/5/2007 (klg,). (Entered: 02/05/2007)
01/05/2007	220	REPLY in Support of Plaintiff's MOTION for Summary Judgment 199, filed by plaintiff Omega SA. (gg,) (Entered: 01/18/2007)
01/05/2007	221	DECLARATION of Matthew C Wagner in support of plaintiff's reply in support of its MOTION for Summary Judgment 199, filed by plaintiff Omega SA. (gg,) (Entered: 01/18/2007)
01/05/2007	222	RESPONSE to defendant's evidentiary objections in support of opposition to plaintiff's MOTION for Summary Judgment 199, filed by plaintiff Omega SA. (gg,) (Entered: 01/18/2007)
01/05/2007	223	RESPONSE to Defendant's Additional Material Facts and Conclusion of Law, filed by Plaintiff Omega SA (gg,) (Entered: 01/18/2007)
01/09/2007	226	EVIDENTIARY OBJECTIONS TO DECLARATION OF Matthew C. Wagner Filed in Support of

		Omega's Reply In Support of Omega's Reply Re MOTION for Summary Judgment 199 filed by Defendant Costco Wholesale Corporation. (yl,) (Entered: 01/23/2007)
1/10/2007	225	SEALED DOCUMENT – DECLARATION of MATTHEW C.WAGNER In Support of Its MOTION for Summary Judgment 199 (yl,) Modified on 1/23/2007 (yl,). (Entered: 01/23/2007)
01/10/2007	227	SEALED DOCUMENT-REPLY in Support of Plaintiff's MOTION for Summary Judgment 199 (yl,) (Entered: 01/24/2007)
01/17/2007	231	OPPOSITION to EVIDENTIARY OBJECTIONS filed by Plaintiff Omega SA. (jag,) (Entered: 01/26/2007)
01/17/2007	232	DECLARATION of RAYNALD AESCHLIMANN in support of MOTION for Summary Judgment 199 filed by plaintiff Omega SA. (jag,) (Entered: 01/26/2007)
02/06/2007	248	ORDER AND JUDGMENT by Judge Terry J. Hatter Jr: IT IS ORDERED that the motions for leave to file documents under seal 175 185 be and hereby are, GRANTED; IT IS FURTHER ORDERED that plaintiffs motion for summary judgment 190 199

		be and hereby is DENIED; IT IS FURTHER ORDERED that defendants motion for summary judgment 175 be and hereby is GRANTED; IT IS FURTHER ORDERED, ADJUDGED AND DECREED that the judgment be and hereby is entered in favor of defendant Costco Wholesale Corporation and against plaintiff Omega SA 175; IT IS FURTHER ORDERED ADJUDGED AND DECREED that plaintiff shall take nothing; IT IS FURTHER ORDERED that all other pending motions be and hereby are DENIED as moot; IT IS FURTHER ORDERED that the preliminary injunction be and hereby is VACATED. (MD JS-6, Case Terminated).(klg,) (Entered: 02/12/2007)
02/06/2007	249	SEALED DOCUMENT - PLAINTIFFS, THE SWATCH GROUP (U.S) INC AND OMEGA S.A. OPPOSITION TO DEFENDANT COSTCO WHOLESALE CORPS MOTION FOR SUMMARY JUDGMENT OR IN THE ALTERNATIVE FOR PARTIAL SUMMARY JUDGMENT. (klg,) (Entered: 02/12/2007)
02/06/2007	250	SEALED DOCUMENT – DECLARATION OF AARON J MOSS

		IN SUPPORT OF DEFENDANT COSTCO WHOLESALE CORPORATIONS MOTION FOR SUMMARY JUDGMENT OR IN THE ALTERNATIVE FOR PARTIAL SUMMARY JUDGMENT.(klg,) (Entered: 02/12/2007)
02/06/2007	251	SEALED DOCUMENT – PLAINTIFFS STATEMENT OF GENUINE ISSUES OF OPPOSITION TO DEFENDANTS MOTION FOR SUMMARY JUDGMENT OR IN THE ALTERNATIVE PARTIAL SUMMARY JUDGMENT. (klg,) (Entered: 02/12/2007)
02/06/2007	252	SEALED DOCUMENT – DECLARATION OF THOMAS P GULICK IN OPPOSITION TO DEFENDANTS MOTION FOR SUMMARY JUDGMENT (klg,) (Entered: 02/12/2007)
02/06/2007	253	SEALED DOCUMENT -- DECLARATION OF AARON J MOSS IN SUPPORT OF DEFENDANT COSTCO WHOLESALE CORPORATIONS OPPOSITION TO MOTION FOR SUMMARY JUDGMENT (klg,) (Entered: 02/12/2007)
03/13/2007	258	NOTICE OF APPEAL to 9th CCA filed by Plaintiff Omega SA. Appeal of Judgment, 248 Filed On: 2/06/070 [sic]; Entered On:

		2/12/07; Forms Given: Transcripts Designation Ordering Form; Filing fee $455, Paid, receipt number 94020. cc: Robert M. Dato; Aaron J. Moss. (lr,) (Entered: 03/15/2007)
03/23/2007	263	NOTIFICATION by Circuit Court of Appellate Docket Number 07-55368, 9th CCA regarding Appeal to Circuit Court, 258 filed by Omega SA. (lr,) (Entered: 03/23/2007)

General Docket
United States Court of Appeals
for the Ninth Circuit

OMEGA S.A.,

Plaintiff-Appellant,

v.

COSTCO WHOLESALE CORPORATION,

Defendant-Appellee.

03/21/2007	☐ 1	DOCKETED CAUSE AND ENTERED APPEARANCES OF COUNSEL. CADS SENT (Y/N): n. Setting schedule as follows: appellant's designation of RT is due 3/23/07; appellee's designation of RT is due 4/2/07; appellant shall order transcript by 4/12/07; court reporter shall file transcript in DC by 7/12/07, ; certificate of record shall be filed by 7/19/07 ; appellant's opening brief is due 8/28/07; appellees' brief is due 9/27/07; appellants' reply brief is due 10/11/07; [07-55368] (C)
10/16/2007	☐ 15	Received (UNDER SEAL) Appellant Omega S.A.'s brief in 15 copies of 59 pages (Informal: No); 1 vol. of EOR; served on 10/15/07 – deficient – submitted concurrently with original and 15 copies of opening brief and 1 vol. of EOR (REDACTED PUBLIC VERSION) & motion to seal pending

		w/PROMO. (copy of both submitted briefs to PROMO) [07-55368, 07-56206] (RT)
10/16/2007	☐ 16	Received (REDACTED PUBLIC VERSION) Appellant Omega S A 's brief in 15 copies of 59 pages (Informal: No); 1 vol. of EOR; served on 10/15/07; deficient: submitted concurrently with (UNDER SEAL) original and 15 copies of opening brief and 1 vol. of EOR – motion to seal pending w/PROMO. (copies of both briefs to PROMO) [07-55368, 07-56206] (RT)
12/04/2007	☐ 21	Filed UNDER SEAL original and 15 copies Appellant Omega S A 's opening brief (Informal: n) 59 pages & 5 Excs.; served on 10/15/07 (filed per court's 12/4/07 order) [07-55368, 07-56206] (CV)
12/04/2007	☐ 22	Filed REDACTED PUBLIC VERSION original & 15 copies Appellant Omega S.A.'s opening brief (Informal: n) 59 pages & 5 Excs ; served on 10/15/07 (filed per court's 12/4/07 order) [07-55368, 07-56206] (GV)
12/17/2007	☐ 24	Filed original and 15 copies appellee Costco Wholesale Corporation's 37 pages brief, 2 vols of Supp EOR; vol. 1 (UNDER SEAL) Supp EOR with notification of filing under seal and district court

order, and Redacted Public Version of vol.1; served on 12/14/07 [07-55368, 07-56206] (RT)

12/21/2007 ☐ 27 Received Retail Industry Leaders Association, National Association of Chain Drug Stores (proposed) amicus curiae brief in 15 copies of 19 pages in support of appellees; served on 12/20/07; deficient: submitted w/motion for leave to file brief. (to records for merits panel) [07-55368, 07-56206] (RT)

01/22/2008 ☐ 33 Filed original and 15 copies appellant Omega S.A.'s consolidated reply brief, (Informal: No) 26 pages; served on 1/18/08 [07-55368, 07-56206] (RT)

07/15/2008 ☐ 41 ARGUED AND SUBMITTED TO BARRY G. SILVERMAN, JOHNNIE B. RAWLINSON and MILAN D. SMITH, JR. [07-55368, 07-56206] (LN)

09/03/2008 ☐ 42 21 pg, 140.72 KB FILED OPINION (BARRY G. SILVERMAN, JOHNNIE B. RAWLINSON and MILAN D. SMITH, JR.) REVERSED AND REMANDED. FILED AND ENTERED JUDGMENT. [07-55368, 07-56206] (RP)

09/25/2008 ☐ 46 2 pg, 273.1 KB Filed original and 50 copies of Appellee Costco Wholesale Corporation's petition for rehearing en banc only Number of Pages 15. Served on 09/23/2008. Deficiency:

None. Date circulated to the court: 09/25/2008 (ACTIVE JUDGES-ANY INTERESTED SENIOR JUDGES) [07-55368, 07-56206] (GV)

10/07/2008 ☐ 48 Received original and 50 copies of Amicus Curiae The Retail Industry Leaders Association brief in 19 pages. Deficiency: Motion pending Other deficiencies: non [sic]. Served on. 10/03/2008 [07-55368, 07-56206] PANEL AND ALL ACTIVE JUDGES AND ALL INTERESTED SENIOR JUDGES (GV)

10/16/2008 ☐ 49 2 pg, 23.85 KB Filed order (BARRY G. SILVERMAN, JOHNNIE B. RAWLINSON and MILAN D. SMITH, JR.) Plaintiff-Appellant is directed to file a response to Defendant-Appellee's Petition for Rehearing En Banc, filed with this court on September 25, 2008. The response shall not exceed 15 pages, shall be filed within 21 days of the date of this order, and Plaintiff-Appellant shall provide this court with 50 copies of any such response. [07-55368, 07-56206] (SC)

11/07/2008 ☐ 53 Filed original and 50 copies of Appellant Omega S.A. in 07-55368, 07-56206 response to Rehearing Petition, Petition for rehearing by en banc only (all active, any interested senior judges). 18 pages. Served on 11/05/2008. Date

	circulated to the court: 11/07/2008 (PANEL-ACTIVE JUDGES-ANY INTERESTED SENIOR JUDGES) PLEASE NOTE: THE ATTACHED DOCUMENT IS A DOCUMENT INTERNAL TO THE COURT AND IS NOT ACCESSIBLE ON PACER OR ECF. [07-55368, 07-56206] (GV)
02/17/2009 ☐ 54 1 pg, 23.14 KB	Filed order (BARRY G. SILVERMAN, JOHNNIE B. RAWLINSON and MILAN D. SMITH, JR.) The panel has unanimously voted to deny the petition for rehearing en banc. A judge of the court requested a vote on whether to rehear the case en banc, but the request failed to receive a majority of the votes of the nonrecused active judges in favor of en banc rehearing. The petition for rehearing en banc is DENIED. [07-55368, 07-56206] (SC)
03/04/2009 ☐ 56 2 pg, 27.32 KB	\MANDATE ISSUED.(BGS, JBR and MDS) Costs awarded to Appellant $618.60 [07-55368, 07-56206] (GV)
05/27/2009 ☐ 57 1 pg, 23.15 KB	Received notice from the Supreme Court: petition for certiorari filed on 05/18/2009. Supreme Court Number 08-1423. [07-55368, 07-56206] (RR)
04/23/2010 ☐ 58 1 pg, 20.59 KB	Received notice from the Supreme Court. Petition for certiorari

GRANTED on 04/19/2010. Supreme Court Number 08-1423. [7316247] [07-55368, 07-56206] (Updated to attach correct version of document; resent notice) -- [Edited 04/27/2010 by HH] (GV)

United States District Court
Central District of California
Western Division

OMEGA S.A., *et al.*, Plaintiffs, v. COSTCO WHOLESALE CORPORATION, Defendant.	CV 04-5443 TJH (RCx) **Preliminary Injunction** (Filed Oct. 8, 2004) THIS CONSTITUTES NOTICE OF ENTRY AS REQUIRED BY FRCP, RULE 77(d).

The Court has considered Plaintiffs' motion for a preliminary injunction, together with the moving and opposing papers. The Court makes the following findings of fact and conclusions of law:

1. Plaintiffs Omega S.A. ("Omega") and Swatch Group (U.S.) Inc. ("Swatch") allege that Defendant Costco Wholesale Corporation ("Costco") infringed the registered copyright in and to Plaintiffs' Omega Globe Design ("Globe Design") in violation of the Copyright Act of 1976 as amended, 17 U.S.C. §§ 101-1010- ("Copyright Act").

2. Plaintiffs seek a preliminary injunction pursuant to Fed. R. Civ. P. 65 and Section 502 of the Copyright Act.

3. This Court has original jurisdiction pursuant to 28 U.S.C. §§ 1331, 1337, 1338(a), 1338(b) and the Copyright Act.

4. Omega manufactures the Omega Seamaster Watch ("Seamaster"), bearing the Globe Design. On or about March 12, 2003, Omega obtained United States Registration No. VAu 574-660 for its Globe Design.

5. Omega distributes the Seamaster only through authorized distributors and dealers located throughout the world, including the United States. Swatch is the exclusive United States distributor of the Seamaster. Swatch distributes the Seamaster only to authorized dealers in the United States.

6. On or about May 28, 2004, an employee of Swatch purchased a Seamaster bearing the Globe Design and serial No. 80682553 from the Costco store in City of Industry, California. That Seamaster was manufactured in Switzerland in 2004 and sold by Omega to a distributor in Egypt.

7. On or about July 9, 2004, Plaintiffs, using investigative services, purchased a Seamaster bearing the Globe Design and serial No. 80734235 from the Costco store in Laguna Niguel, California. That Seamaster was manufactured in Switzerland in 2004 and sold by Omega to a distributor in Paraguay.

8. Neither Omega nor Swatch sold the Seamasters to Costco. Costco did not acquire the Seamasters from any authorized distributor or dealer authorized to ship Seamasters to the United States, Costco is not authorized to sell Omega products in the United States.

9. This Court finds that Plaintiffs have established a likelihood of success on the merits and the possibility of irreparable harm.

It is Ordered that Defendant Costco Wholesale Corporation, its officers, directors, principals, agents, representatives, employees, successors and assigns, and all those acting in concert or participation with them, be, and hereby are, **preliminarily enjoined** from committing any of the following acts:

1. Using the Omega Globe Design in connection with the sale, offering for sale, distribution, exhibition, display or advertising of its goods through the Internet or otherwise;

2. Infringing Omega's copyright in the Omega Globe Design in any manner; and

3. Publishing, selling, marketing, or otherwise disposing of any copies or goods bearing the Omega Globe Design.

It is further Ordered that Costco shall:

1. Inventory with serial numbers and deliver to the substitute custodian, within ten business days from the date of this order, any copies of or goods bearing the Omega Globe Design in its possession, custody or control, with written notice of the same to the Court.

2. Inventory with serial numbers and deliver to the substitute custodian, within ten business days from the date Costco or

any of its agents, employees or others controlled by them or acting on their behalf or in concert with them, obtains the possession, custody or control of any further copies or goods bearing the Omega Globe Design, with written notice of the same to the Court.

It is further Ordered that the substitute custodian shall be David S. Richman of Stephan Oringher, Richman & Theodora, P.C., 2029 Century Park East, Los Angeles, California 90067-2907.

It is further Ordered that this preliminary injunction shall be effective upon Plaintiffs' posting of a $50,000.00 bond.

Date: October 8, 2004

/s/ Terry J. Hatter, Jr.
Terry J. Hatter, Jr.
United States District Judge

David S. Richman, Esq. (State Bar No. 94325)
Patricia S. Riordan, Esq. (State Bar No.187418)
STEPHAN, ORINGHER, RICHMAN,
THEODORA & MILLER, P.C.
2029 Century Park East, Sixth Floor
Los Angeles, California 90067-2907
Telephone: (310) 557-2009
Facsimile: (310) 551-0283

Jess M. Collen, Esq.
Matthew C. Wagner, Esq.
Jeffrey A. Lindenbaum, Esq.
Collen IP
The Holyoke-Manhattan Building
80 South Highland Avenue
Town of Ossining
Westchester County, New York 10562
Telephone (914) 941-5668
Telecopier (914) 941-6091

Attorneys for Plaintiffs OMEGA S.A. and
THE SWATCH GROUP (U.S.) INC.

[First Amended Complaint
Continues On Next Page]

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiff, vs. COSTCO WHOLESALE CORPORATION AND ENE LTD. Defendants.	Case No. CV04-5443 TJH (RCx) The Honorable Terry J. Hatter, Jr. **OMEGA S.A. AND THE SWATCH GROUP (U.S.) INC.'S FIRST AMENDED COMPLAINT**

FIRST AMENDED COMPLAINT

The Plaintiffs, Omega S.A. and The Swatch Group (U.S.) Inc., ("Plaintiffs") bring this action to obtain redress and recompense for past and ongoing loss and damage sustained as a result of Defendants, Costco Wholesale Corporation and ENE Ltd.'s ("Defendants") infringement. As and for its Complaint against the Defendants, Plaintiffs hereby state and allege the following:

PARTIES

1. Plaintiff; Omega, S.A. ("Omega"), is a corporation duly organized and existing under the laws of Switzerland, located at 96 Rue Jakob Stampfli, CH-2500 Bienne, Switzerland, ("Omega").

2. Plaintiff The Swatch Group (U.S.) Inc. ("Swatch") is a corporation duly organized and existing by virtue of the laws of Delaware with its principal place of business at 1200 Harbor Boulevard, 7th Floor, Weehawken, New Jersey.

3. On Information and belief, Defendant Costco Wholesale Corporation is a corporation duly organized and existing by virtue of the laws of the state of Washington with its principal place of business at 999 Lake Drive, Issaquah, Washington, 98027.

4. On Information and belief, Defendant ENE Ltd. is a corporation duly organized and existing by virtue of the laws of the state of New York with its principal place of business at 22 West 48th Street, Suite 801, New York, New York.

JURISDICTION AND VENUE

5. On information and belief, Defendants have committed and are committing acts of Copyright Infringement, as hereinafter alleged, in this District, through displaying, importing, distributing, advertising and using Plaintiffs' copyrighted materials.

6. This action is for Copyright Infringement, arising under the Copyright Act of 1976, as amended (17 U.S.C. § 501 et seq.).

7. This Court has original jurisdiction pursuant to 28 U.S.C. §§1331, 1337, 1338(a) (acts of Congress relating to copyrights), and 17 U.S.C. §§101 et seq. (actions arising under the Copyright Act).

8. Venue is proper in this District pursuant to 28 U.S.C. §1391(b) and (c) because a substantial part of the events or acts giving rise to the claim occurred in this judicial district and a substantial part of the property that is the subject of the action is situated in this judicial district.

FACTS

9. Plaintiff, Omega, manufactures watches which it sells in the U.S. and worldwide.

10. Omega's registered trademarks have been advertised and promoted and otherwise used in commerce throughout the United States, including this District, since at least as early as 1894.

11. Omega has become widely known as the source of exclusive, fashionable, high quality precision watches.

12. Omega has invested millions of dollars in advertising and promotion of its OMEGA brand watches in the United States.

13. Omega is the foreign manufacturer of a watch bearing the registered trademark SEAMASTER. (the "OMEGA SEAMASTER Watch").

14. Plaintiffs have manufactured the OMEGA SEAMASTER Watch in Switzerland since 1948.

15. Omega distributes its watches, including the OMEGA SEAMASTER Watch only through

authorized distributors and dealers located throughout the world, including the United States and abroad.

16. Plaintiff Swatch is the exclusive distributor of OMEGA brand watches, including the OMEGA SEAMASTER Watch, in the United States.

17. Swatch only distributes the OMEGA brand watches to authorized dealers in the United States.

18. Plaintiffs authorize sale and distribution of the OMEGA SEAMASTER Watch to the public exclusively through authorized dealers that are properly trained in the apparatus and promote an image consistent with the company's marketing of a luxury goods product.

19. Plaintiffs Omega and Swatch provide warranty service to watches sold through its authorized dealers. Included in the packaging materials for these watches are warranty cards, valid only upon endorsement by authorized Omega dealers. Factory warranty service by trained, skilled watchmakers with thorough product knowledge is critical to the reputation of Omega as a prime seller of goods made to exacting specifications in the luxury market. Particularly when the goods are watches, which inherently must be perfect, delivering both an exclusive image and superior quality are paramount to a brand's success and its survival.

20. In addition to bearing the OMEGA SEAMASTER trademarks and its distinctive trade dress,

Plaintiffs' watches bear a unique design, deemed the "Omega Globe Design."

21. The Omega Globe Design is a copyrighted work owned by Plaintiff Omega.

22. On or about March 12, 2003, Plaintiff obtained from the United States Copyright Office, U.S. Registration No. VAu 574-660 for its Omega Globe Design. Exhibit A.

23. On or about July 9, 2004, Plaintiff, through the investigative services of Timothy Santoni, purchased an OMEGA SEAMASTER Watch containing the Omega Globe Design, and bearing Serial No. 80734235, from Defendant's Costco Wholesale store located at 27220 Heather Ridge, Laguna Niguel, California 92677.

24. On or about May 28, 2004, Courtney Grafeld, an employee of Plaintiff, The Swatch Group, purchased an Omega Seamaster Watch, bearing the Omega Globe Design, and Serial No. 80682553 from Defendant's Costco Wholesale store located in City of Industry, California.

25. Upon information and belief on at least the first and sixth days of April 2004, the third and twenty-fifth days of March 2004, the fourth and ninth days of June 2004 and the thirteenth and fourteenth days of July 2004 Defendant ENE Ltd. provided Defendant Costco Wholesale Corp. with the watches bearing the Omega Globe Design including those mentioned above, as well as others.

26. Defendants are not authorized dealers of the OMEGA SEAMASTER Watch.

27. Upon information and belief, Defendants did not acquire the OMEGA SEAMASTER Watches from an authorized distributor or a dealer who is authorized to ship the OMEGA SEAMASTER Watches to the United States.

28. Defendants are not authorized by Plaintiffs to sell OMEGA products in the U.S. and have not acquired the goods from the trademark and copyright owner Omega S.A.

COUNT I

COPYRIGHT INFRINGEMENT (AGAINST ALL DEFENDANTS)

29. Plaintiffs restate and *reassert* each and every allegation contained in paragraphs 1-28, inclusive of this Complaint and the acts of Defendants asserted therein as if fully recited in this paragraph.

30. This count is for unlawful infringement, under 17 U.S.C. §§ 106 and 602, of Plaintiffs' copyright, which work was deposited with the United States Library of Congress and duly registered with the United States Copyright Office.

31. Omega owns the Omega Globe Design.

32. The Omega Globe Design contains material wholly original to Omega and of which Omega is the

author and which is copyrightable subject matter under the laws of the United States.

33. The Omega Globe Design is affixed to OMEGA SEAMASTER Watches including the OMEGA SEAMASTER Watches bearing Serial Nos. 80682553 and 80734235.

34. Omega has complied in all respects with the Copyright Act, and secured the exclusive rights and privileges in and to the copyright of the Omega Globe Design and all materials therein, and received from the Register of Copyright a Certificate of Registration, dated March 12, 2003, Registration No. VAu 574-660. (Exhibit A, attached).

35. With full knowledge of the rights of Plaintiffs therein, Defendants have infringed the Plaintiffs' copyright by displaying, importing, publishing, offering for sale, selling, and distributing entire portions of Plaintiffs' design, including artwork, text, pictures and photographs depicting the design as shown in Exhibit A.

36. Without the authorization of Plaintiffs, Defendants have imported the OMEGA SEAMASTER Watch bearing the Omega Globe Design, into the United States. If Defendants did not directly import the OMEGA SEAMASTER Watch into the United States, then Defendants are part of the chain of distribution of the unlawfully imported and distributed OMEGA SEAMASTER Watch.

37. Upon information and belief, Defendants are fully aware that they are not an authorized distributor or dealer and that it has not purchased these goods from the copyright owner.

38. Upon information and belief, Defendants have continued to infringe the copyright and have no intention to cease and desist such infringing activities and have acted willfully.

39. All of Defendants' acts were performed without the consent, permission, license, or authorization of the Plaintiffs.

40. Defendants' acts of copyright infringement, as alleged above, have caused Plaintiffs to suffer damages and Plaintiffs will continue to suffer substantial damages as a result of Defendants' misappropriation of the Plaintiffs' exclusive rights to use, import, distribute, reproduce and otherwise exploit its copyrighted works.

41. Defendants' acts of copyright infringement as alleged above are causing Plaintiffs and the public irreparable injury, and will continue to do so unless restrained and enjoined.

42. Defendants' willful acts of copyright infringement justify the award of the maximum measure of statutory damages against it – namely, One Hundred and Fifty Thousand Dollars ($150,000) – for each act of infringement of Plaintiffs' copyright in a total amount which may only be ascertained by discovery of the Defendants' business and financial

records, together with costs and attorneys' fees. Alternatively, Plaintiffs are entitled to the actual damages incurred as a result of Defendants' infringement and any additional profits of Defendants attributable to the acts of infringement, together with costs and attorneys' fees.

DEMAND FOR JURY TRIAL

43. Plaintiffs restate and *reassert* each and every allegation contained in paragraphs 1-42, inclusive of this Complaint and the acts of Defendants asserted therein as if fully recited in this paragraph.

44. Plaintiffs, hereby demand a Jury Trial.

WHEREFORE, Plaintiffs pray:

1. That pursuant to 17 U.S.C. §504, that Defendants be liable to Plaintiffs for infringement of its copyright in the Omega Globe Design in an amount equal to, at Plaintiffs' election: (a) statutory damages of up to thirty thousand dollars ($30,000) for each infringement of Plaintiffs' copyright, enhanced up to $150,000 per infringement on a finding that Defendants' activities were willful, in an amount to be determined by the Court; or alternatively at Plaintiffs' election (b) the actual damages suffered by Plaintiffs as a result of Defendants' infringement of Plaintiffs' copyright, plus any profits of Defendants attributable to such infringement and Plaintiffs' attorney's fees and costs.

2. That Defendants' liability to Plaintiffs for copyright infringement be enhanced up to one hundred and fifty thousand dollars ($150,000) per infringement, pursuant to a finding of willful infringement, should Plaintiff elect to recover statutory damages in lieu of its actual damages and the Defendants' profits.

3. That Defendants be required to account for and pay over all gains, profits, and advantages derived by Defendants and any damages sustained by Plaintiffs as a result of its infringement of Plaintiffs' copyright, as set forth herein.

4. That pursuant to 17 U.S.C. §502 and the equity jurisdiction of this court, the Defendants, their agents, employees, or representatives, and all persons in privity therewith be permanently enjoined and restrained from using on or in connection with the sale, offering for sale, distribution, exhibition, display or advertising of its goods through the Internet or otherwise, the Omega Globe Design, from infringing Plaintiffs' copyright in the Omega Globe Design in any manner, and from publishing, selling, marketing, or otherwise disposing of any copies of Defendants' material which have been derived in any manner by infringement of Plaintiffs' copyright.

5. That Defendants and their officers, agents, employees, or representatives, and all persons in privity with Defendants not destroy but deliver up to this Court, pursuant to the copyright laws of the United States, 17 USC § 101 et seq., any products in their possession bearing the copyrighted materials of

the Plaintiffs or any colorable imitation, for the purpose of destruction thereof.

6. That Defendants and their officers, agents, employees, or representatives, and all persons in privity with Defendants be required to file with this Court and serve upon Plaintiffs a report in writing and under oath setting forth in detail the manner and form in which the Defendants have complied with the terms of the injunction.

7. That, because of the willful nature of the infringements, the amounts of actual damages be trebled as provided for in 15 U.S.C. § 1117.

8. That, pursuant to 17 U.S.C. § 505, Defendants be required to pay to Plaintiffs the costs of this action, including attorneys' fees and disbursements incurred.

9. Any such other and further relief as this Court deems just and equitable.

DATED: March 6, 2006

COLLEN IP
STEPHAN, ORINGHER, RICHMAN
& THEODORA, P.C.

By: /s/ Patricia Riordan
David S. Richman
Patricia S. Riordan
Attorneys for Plaintiffs
OMEGA S.A. and THE
SWATCH GROUP (U.S.) INC.

NORMAN H. LEVINE (SBN 061884)
AARON J. MOSS (SBN 190625)
SEDINA L. BANKS (SBN 229193)
GREENBERG GLUSKER FIELDS
CLAMAN & MACHTINGER LLP
1900 Avenue of the Stars, 21st Floor
Los Angeles, California 90067-4590
Telephone: 310.553.3610
Fax: 310.553.0687
nlevine@ggfirm.com
amosss@ggfirm.com
sbanks@ggfirm.com

Attorneys for Defendant
Costco Wholesale Corporation

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiffs, vs. COSTCO WHOLESALE CORPORATION, Defendant.	CASE NO. CV-0-4-5443 TJH (RCx) **DECLARATION OF AARON J. MOSS IN SUPPORT OF DEFENDANT COSTCO WHOLESALE CORPORATION'S MOTION FOR SUMMARY JUDGMENT OR, IN THE ALTERNATIVE, FOR PARTIAL SUMMARY JUDGMENT** (Filed Oct. 20, 2006)

NON-PUBLIC FILING – FILED CONDITIONALLY UNDER SEAL

[Notice of Motion and Motion, Statement of Uncontroverted Facts and Conclusions of Law filed concurrently herewith]

Date: November 20, 2006
Time: 9:30 a.m.
Courtroom: 17
Action Filing Date: July 14, 2004
Trial Date: February 6, 2007

* * *

[Pleading Omitted; Relevant Exhibits Attached]

EXHIBIT D

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.), INC., Plaintiff, v.s. COSTCO WHOLESALE CORPORATION, Defendant.	Case No. CV04-5443 TSH (RCx)

DEPOSITION OF MAUREEN GELHAYE,
VOLUME 1
August 24, 2005
Issaquah, Washington

Reported by:
Mary W. Miller
CCR No. 2653
Job No. 7474B/176664

* * *

[80] Q. When did you first learn about the Omega globe design?

A. When the lawsuit was first initiated.

Q. So prior to that time you didn't know what that was?

A. No.

[Reporter's Certificate Omitted In Printing]

EXHIBIT E

UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiffs,	)	Case No. CV04-5443 TJH (RCx)
vs.	)	
COSTCO WHOLESALE CORPORATION, Defendant.	)	

** CONTAINS CONFIDENTIAL INFORMATION **

VIDEOTAPED DEPOSITION OF:

YANN GAMARD
TUESDAY, MARCH 14, 2006
9:35 A.M.

REPORTED BY:

SUSAN NELSON
C.S.R. No. 3202

* * *

[59] Q. Which dealers, bought fewer quantities of watches because The Swatch Group watches had been sold at Costco?

A. Most dealers.

Q. Which ones?

A. Most. Really most. I mean, the – the – the large, large majority of my dealers, including the multiples.

* * *

[61] Q. So is it your testimony that almost every retailer that Omega dealt with placed orders for fewer quantities of watches than you – than they usually had because those watches were being sold at Costco –

A. No, it's –

Q. – and other stores?

A. It's my testimony that – that the majority, the large majority of our retailers have dec- – had – had put us on notice and on warning and were slowing down on their sales hence, their purchases of our watches, because of our lack of control of our distribution, Costco and Sam's Club being amongst the examples but not – not alone.

* * *

[65] Q. You also talked about one of the ways you tried to solve the distribution control problem was to change the way the brand was imported; is that correct?

A. I said – – I said that amongst the things that we needed to have a better control on was our distribution of the brand and the various sources of importation of the brand in the country, yes.

Q. And what did you do to deal with that issue?

A. Well, the details of it, I don't know, but we – we've – we implemented a system of – of copyright protection which enabled us to have a better control on – on – on the imports of our product in the country.

Q. So by using copyrights, you – strike that. You decided to use copyrights to attempt to control the importation of watches?

A. No, it's not exactly that. It's we – [66] we – we had – we found through copyright an additional means for us to better control our distribution through controlling of the imports.

* * *

[68] Q. Is it fair to say that the use of copyright law was the primary method by which Omega and The Swatch Group decided to control importation?

A. To control – I would – I wouldn't know if it's a primary. I mean, I'm not a specialist at that. To me – for me it was an extra means that was offered to control the distribution, so I don't know if it's a primary or a secondary..

Q. And when you say "it was an extra means that was offered," offered by whom?

A. Offered by legal and Omega.

THE REPORTER. Offered by –

THE WITNESS: Legal. Legal department.

* * *

[124] Q. At the time you wrote this letter –

A. Yes.

Q. – seeking more information about the way Costco does business, did you believe that it was improper for Costco to be buying watches from companies besides The Swatch Group?

A. Improper?

Q. Yes.

A. Or – or – or illegal? Improper, yes.

Q. And why did you believe it was improper?

A. Because they were damaging – in the distributing of it, they were damaging the image of the brand in America.

Q. And did you believe that it was unlawful for Costco to buy watches –

A. No.

Q. – from companies other than Swatch Group?

A. No. I don't know. I don't think So. No.

[125] Q Well, no, I don't believe so.

Q. You do not believe it was unlawful?

A. No.

* * *

[133] Q. And you thought that you would solve your [134] distribution problem by preventing Costco from selling Swatch Group watches?

MR. COLLEN: Objection. Form.

THE WITNESS: No. No. I couldn't prevent them. They were selling those watches. I just needed to continue to make – to make them understand that it's damaging to –

BY MR. MOSS:

Q. At the time of this correspondence, did you have any discussions with your colleagues about whether the sale of Swatch Group watches by Costco was hurting Swatch Group's business?

MR. COLLEN: Excuse me. Could I hear that back or can you read – I just missed part of that there.

(Record read as follows:

"QUESTION: At the time of this correspondence, did you have any discussions with your colleagues about whether the sale of Swatch Group watches by Costco was hurting Swatch Group's business?")

MR. COLLEN: Could you just clarify "this correspondence," are you talking about 68?

MR. MOSS: Talking about Exhibit 7 and 68.

[135] MR. COLLEN: Okay. Thank you.

THE WITNESS: Okay. I have had, many discussions from my – coming from my colleagues about the – the damaging effect of – of the non-authorized distribution on Omega. I don't know if I had some specifically at that time, but mostly yes, because we had them all the time.

BY MR. MOSS:

Q. And did you have any discussions with your colleagues at Swatch Group, Limited, the international company, about this issue?

A. Swatch Group, Limited would not – I mean, Swatch Group, Limited is a holding company so they wouldn't – it wouldn't be involved in this.

Q. Did you have any discussions with your colleagues at Omega S.A. about the issue of Costco selling Omega watches?

A. About the issue of unauthorized distribution on Omega, yes. Many.

Q. Who did you talk to?

A. Aeschlimann. He would be my primary contact on this.

Q. And what did you talk to Mr. Aeschlimann about?

A. That we were – that we needed to implement [136] a certain number of solutions since we had

started already since 2002 to implement all sorts of solutions to bring the brand back to where – where it belonged.

Q. And what were the solutions that you had started to implement since 2002?

A. Solutions on marketing, on assortment, on re- – on automatic replenishment, on selective distribution, and – and – and at that point in time, later in the game, also solution on the control of the imports.

Q. When you say later in time you implemented solutions on the controls of the imports, what are you referring to?

A. We have put together a road map for – for improving the – the whole distribution and image of Omega over several years and it took two or three years for legal and Omega to develop a solution which would permit us to have a better control on the imports in America.

* * *

[139] Q. How did you know that the creation of copyrighted designs was part of the strategy to control the importation system of Omega watches?

MR. COLLEN: And, again, I caution you –

THE WITNESS: Yes.

[140] MR. COLLEN: – apart from discussions –

THE WITNESS: Okay.

MR. COLLEN: – with counsel.

THE WITNESS: The – the – the – this solution was put forth to me as a solution to improve the control of – of imports.

BY MR. MOSS:

Q. When you say "this solution," what are you referring to?

A. To the solution of the copyright protection.

Q. And when you say that the solution was put forth to you, it was put forth to you by whom?

A. By legal department.

* * *

[142] Q. Did you ever tell Costco – anybody at [143] Costco that Omega was trying to use copyrights to prevent Costco from selling Omega watches?

A. Two things in your question. The first one is, the copyright was not to prevent Costco from – from – from selling the watches, and no, there was no reason why I should tell Costco or anybody else, for that matter.

Q. The copyright was not designed solely to prevent Costco, but it was designed to control the importation of those watches; correct?

A. The – the – the importation of the watches by Swatch Group U.S., yes.

* * *

[163] Q. You did not tell anyone at Costco about Omega's plans to place a copyrighted design on Omega watches during the Weehawken meeting; correct?

A. Yeah, I did not.

Q. Were you hoping that Costco would sell watches containing the copyrighted design without knowing about it?

[164] A. No. I was hoping Costco would not sell watches.

Q. Did you do anything to warn Costco that it shouldn't sell watches anymore?

A. I – warn. No. I kept telling Costco that I had a problem with the way they were selling our watches.

* * *

[Reporter's Certificate Omitted In Printing]

EXHIBIT F

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION

OMEGA S.A. and
THE SWATCH GROUP,
(U.S.) INC.,

Plaintiffs,

vs. CV04-5443 (TJH) (RCx)

COSTCO WHOLESALE
CORPORATION,

Defendant.

HIGHLY CONFIDENTIAL

DEPOSITION OF EMIL MIZRAHI

Tuesday, July 25, 2006

10:00 a.m.

Reported by:

Joan Urzia, RPR

JOB NO. 186273

* * *

[12] Q Is ENE Limited a New York company?

A Yes.

* * *

[135] Do you know for certain?

THE WITNESS: That they come from overseas? By the pricing that we buy it, and it's got to be.

Q In your conversations with the buyers at Costco, did you ever tell Maureen or Stephanie that?

A That what?

Q That the goods that you were selling them, the Omega watches that you were selling them were acquired by your supplier outside of the United States?

A If we told them that this comes from overseas?

Q Yes.

A Yes.

Q Who did you tell that to?

A To Stephanie.

* * *

[139] Q Now ENE Limited is not an authorized dealer of Omega watches, right?

A No.

MR. HOFFNER: By no, he means yes, so we all understand that.

MR. LEVINE: He means correct.

MR. HOFFNER: Yes, you're correct, they're not an authorized dealer.

MR. WAGNER: I think we all do understand that.

MR. HOFFNER: Your question was a negative.

MR. WAGNER: It was, yes.

ENE is not an authorized dealer, and he responded no, meaning no, we are not an authorized dealer.

Q Is that correct?

A Correct.

Q Did Maureen or Stephanie ever ask if ENE was authorized by Omega?

A No, but they know that we're not.

[140] Q Why do you say that?

A We fill up on this document, how can we be a dealer?

Q I don't know what you mean by that.

A If we fill up all this information, how can we be a dealer?

Q Meaning if you were authorized, then there would be no need for all of that?

A I don't think so.

* * *

[160] We talked earlier about importation, importing.

A Yes.

Q Is it correct that ENE never imported any of the Omega watches which it sold to Costco?

[161] A Yes.

Q Did ENE pay any Customs duties for any of the watches that it sold, any of the Omega watches that it sold to Costco?

A If ENE paid?

Q Yes.

A No.

Q Did ENE pay any of the freight for shipment from overseas to the United States on any of the Omega watches –

A No.

Q – sold to Costco?

A No.

Q I'm going a little slowly, forgive me, but please wait until I finish and then answer.

MR. LEVINE: Did you get an answer to the last question?

THE REPORTER: Yes.

Q Did ENE pay any other expenses relating to importation of any of the Omega watches that ENE sold to Costco?

A No.

Q Were all of the Omega watches [162] that were purchased by ENE from any of its three suppliers which ENE then resold to Costco all delivered to ENE's offices here in New York City?

A Yes.

* * *

[Reporter's Certificate Omitted In Printing]

EXHIBIT G

David S. Richman, Esq. (State Bar No. 94325)
Patricia S. Riordan, Esq. (State Bar No. 187418)
STEPHAN, ORINGHER, RICHMAN,
THEODORA & MILLER, P.C.
2029 Century Park East, Sixth Floor
Los Angeles, California 90067-2907
Telephone: (310) 557-2009
Facsimile: (310) 551-0283
drichman@sortm.com

Jess M. Collen, Esq.
Matthew C. Wagner, Esq.
Collen IP
The Holyoke-Manhattan Building
80 South Highland Avenue
Town of Ossining
Westchester County, New York 10562
Telephone (914) 941-5668
Telecopier (914) 941-6091
mwagner@collenip.com

Attorneys for Plaintiffs OMEGA S.A. and
THE SWATCH GROUP (U.S.) INC.

Norman H. Levine, Esq. [nlevine@ggfirm.com]
(State Bar No. 061884)
Aaron J. Moss, Esq. [amoss@ggfirm.com]
(State Bar No. 190625)
Greenberg Glusker Fields Claman
& Machtinger LLP
1900 Avenue of the Stars, 21st Floor
Los Angeles, California 90067-4590
Telephone (310) 553-3610
Facsimile (310) 553-0687

Attorneys for Defendant COSTCO
WHOLESALE CORPORATION

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiffs, vs. COSTCO WHOLESALE CORPORATION AND ENE LTD. Defendants.	Case No. CV04-5443 TJH (RCx) The Honorable Terry J. Hatter, Jr. ~~[PROPOSED]~~ **FINAL PRETRIAL CONFERENCE ORDER** (Filed Jul. 31, 2006) Pre-trial Conf: July 31, 2006 Time: 10:00 a.m. Courtroom: 17

* * *

5. The following facts are admitted and require no proof:

(1) On March 12, 2003, the United States Copyright Office issued copyright registration VAu 574 660 to Plaintiff Omega, S.A. ("Omega"; for the work entitled "Omega S.A." (hereinafter, "the Omega Globe Design").

(2) Omega manufactures watches bearing the Omega Globe Design in Switzerland.

(3) Omega sells these watches bearing the Omega Globe Design in the United States and worldwide.

(4) Plaintiffs have not designated Defendant Costco as an authorized dealer of any Omega watches.

(5) Costco purchased 117 Omega Seamaster watches bearing the Omega Globe Design from its supplier in 2004.

(6) In 2004, Costco sold 43 Omega Seamaster watches containing the Omega Globe Design to its members.

(7) 74 of the 117 Omega Seamaster watches containing the Omega Globe Design that Costco purchased from ENE in 2004 have not been sold and are being held pending the outcome of this lawsuit.

(8) These 74 watches were manufactured by Omega in Switzerland and sold by Omega to distributors outside of the United States.

(9) In 2004, Costco purchased the Omega Seamaster watches containing the Omega Globe Design from its supplier for $1,118.05 per watch.

(10) The Omega Seamaster watches containing the Omega Globe Design which Costco purchased from its supplier and sold to its members in 2004 were sold for $1,299.99 per watch.

(11) In 2004, Costco made a gross profit of $181.94 on each Omega Seamaster watch containing the Omega Globe Design that it sold to its members.

(12) In 2004, Costco made a total gross profit of $7,823.42 from all sales of the Omega

Seamaster watches containing the Omega Globe Design.

* * *

DATED: 7/31, 2006

/s/ Terry J. Hatter, Jr.
The Honorable Terry J. Hatter, Jr.
United States District Court Judge

Approved as to form and content:

Collen IP

Stephan Oringher Richman
Theodora & Miller, P.C.

/s/ David Richman
David S. Richman, Esq.
Attorneys for Plaintiffs
OMEGA S.A. and THE
SWATCH GROUP (U.S.)
INC.

GREENBERG GLUSKER FIELDS
CLAMAN & MACHTINGER LLP

Stephen Oringher Richman
Theodora & Miller, P.C.

/s/ Aaron Moss
Norman H. Levine, Esq. [/s/ Aaron Moss]
Attorneys for Defendant
COSTCO WHOLESALE
CORPORATION

[Proof Of Service Omitted In Printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
CIVIL MINUTES – GENERAL

Case No. CV 04-5443-TJH(RCx) Date July 31, 2006

Title *Omega S. A. et al., vs Costco Wholesale Corp.,*

Present: The Honorable TERRY J. HATTER, JR., U.S. DISTRICT COURT JUDGE

Yolanda Skipper	Tanya Durant
Deputy Clerk	Court Recorder
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
David Richman Matthew C. Wagner	Aaron J. Moss Norman H. Levine

Proceedings: FINAL PRETRIAL CONFERENCE

Cause called and appearances made as stated above. Court and counsel confer. Pretrial conference held.

Based upon the statements made today on the record, the court hereby sets the following dates:

Discovery cut-off:	November 27, 2006
Motion notice cut-off:	December 27, 2006
Motion in limine due:	January 5, 2007
Jury Trial (8 hrs each side):	February 6, 2007 at 10:00 a.m.

(3-4 day est., no bifurcation)

IT IS SO ORDERED.

cc: all parties of record *TOTAL HRG TIME: .05 min.*

CIVIL MINUTES – GENERAL

Initials of Deputy Clerk YS

EXHIBIT J

PRICE LIST

2004

[LOGO]
OMEGA

[LOGO]
OMEGA
© OMEGA LTD – April 1, 2005
96 Rue Stämpli – 2500 Bienne 4,
Switzerland

www.omegawatches.com

PAGE 105	Exclusive Collection	
5772.71.56	Aquarella ST/A	N/A
5775.71.36	Aquarella ST/A	N/A
5780.71.36	Aquarella ST/A	N/A
PAGE 108	Jewellery	
[Illegible] Ring [Illegible]		28,795-
PAGE 111	Jewellery	
[Illegible] Ring Omegamania		4,395-
PAGE 117	Seamaster	
2512.50.08	Aqua Terra Chrono ST/A	3,995-
PAGE 118	Seamaster	
2502.34	Aqua Terra ST/C	2,798-
[Illegible]	Aqua Terra Chrono ST/A	3,895-
[Illegible]	Aqua Terra Chrono ST/A	3,895-

PAGE 119	Seamaster	
2683.50.31	Aqua Terra YG/C	6,995-
2383.38	Aqua Terra SG/C	4,585-
2513.88	Aqua Terra ST/C	2,795-
PAGE 130	Seamaster	
2535.30	Seamaster Diver GMT ST/C	3,395-
2531.80	Seamaster Diver ST/A	1,995-
2599.80	Seamaster Chrono Diver GMT ST/A	2,995-
PAGE 131	Seamaster	
2560.52	Seamaster Chrono Racing ST/A	4,595-
2396.42	Seamaster Chrono Diver ST/A	3,695-
PAGE 133	De Ville	
[Illegible]	De Ville Power Reserve ST/C	3,895-
PAGE 134	De Ville	
4575.593.51 [Illegible]	De Ville OWT/ST/C	3,595-
4682.20.33 [Illegible]	De Ville Power Receive RG/C	N/A
4131.20	De Ville GMT RG/C	N/A

David S. Richman, Esq. (State Bar No. 94325)
Patricia S. Riordan, Esq. (State Bar No. 187418)
STEPHAN, ORINGHER, RICHMAN,
THEODORA & MILLER, P.C.
2029 Century Park East, Sixth Floor
Los Angeles, California 90067-2907
Telephone: (310) 557-2009
Facsimile: (310) 551-0283
E-Mail: drichman@sortm.com
priordan@sortm.com

Matthew C. Wagner, Esq.
Collen IP
80 South Highland Avenue
Ossining, New York 10562
Telephone (914) 941-5668
Telecopier (914) 941-6091
mwagner@collenip.com

Attorneys for Plaintiff Omega S.A.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA – WESTERN DIVISION

OMEGA S.A., Plaintiff, vs. COSTCO WHOLESALE CORPORATION,, Defendant.	Case No. CV04-5443 (TJH) (RCx) Honorable Terry J. Hatter, Jr., Crtrm. 17 **DECLARATION OF SÜKRÜ CITAL IN SUPPORT OF PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT** (Filed Dec. 5, 2006)

NON-PUBLIC VERSION - CONDITIONALLY FILED UNDER SEAL

[Filed concurrently with Notice of Motion and Motion for Summary Judgment; Statement of Uncontroverted Facts and Conclusions of Law; Declarations of Raynald Aeschlimann, Thomas P. Gulick; David Polutrak; (Proposed) Order and (Proposed) Judgment]

Date: To be determined pursuant to Court order of 11/21/06
Time: 9:30 a.m.
Crtrm.: 17
Date Action Filed: July 14, 2004
Trial Date: February 6, 2007

DECLARATION OF SÜKRÜ CITAL

I, Sükrü Cital, declare as follows:

1. I am an officer of OTAP Saatcilik A.S., located at Sülün Sokak N° 9, Levent, 80620 Istanbul, Turkey, an authorized distributor of Omega brand goods in Turkey. The facts set forth in this declaration are personally known to me and I have first hand knowledge thereof. If called as a witness, I could and

would competently testify to all the following facts that are within my personal knowledge.

2. This declaration is submitted in support of Omega S.A. and The Swatch Group (U.S.) Inc.'s ("Plaintiffs") Motion for Summary Judgment.

3. On January 24, 2002, OTAP Saatcilik A.S. entered into a Distributorship Agreement with Omega, S.A., the Plaintiff in this Action. A true and correct copy of the Distributorship Agreement is attached hereto as Exhibit A.

4. Pursuant to the Distributorship Agreement, OTAP Saatcilik A.S.'s sales are limited to Turkey.

5. On May 17, 2004, OTAP Saatcilik A.S. purchased two (2) Omega Seasmaster [sic] Watches, Serial Nos. 80733697 and 80735412 model number 2531.80 from Omega, S.A. Attached as Exhibit B are true and correct copy of the invoices for the purchase of watches with Serial Number 80733697 and 80735412.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed Nov. 17 2006 at Istanbul, Turkey.

/s/ Sükrü Cital
Sükru Cital

EXHIBIT A

05.12.01
CS/BOC

DISTRIBUTORSHIP AGREEMENT

This Agreement is made this 24th day of January, 2002.

between

OMEGA S.A., a company existing by virtue of the laws of Switzerland and having its principal place of business at Rue Stämpfli 96, CH-2500 Bienne 4, Switzerland (hereinafter "**OMEGA**")

and

OTAP SAATCILIK A.S. a company existing by virtue of the laws of Turkey and having its principal place of business at Sulun Sokak N° 9, Levent, 80620 Istanbul, Turkey

(hereinafter "The Distributor")

* * *

CHAPTER 1: DISTRIBUTION

A) RIGHTS AND OBLIGATIONS OF THE DISTRIBUTOR

Article 1 Distributorship for Turkey

OMEGA hereby appoints **OTAP Saatcilik AS** as its exclusive Distributor of watches bearing the trademark **OMEGA** (hereinafter called "the Products") for the Territory of Turkey and as its non exclusive distributor for duty free areas, duty free shops, airlines

and other duty free activities in the Territory of Turkey, subject to the terms and conditions of this Agreement.

The Distributor shall buy and sell the Products on its own account and name.

Article II **Territory infringements**

The Distributor undertakes not to pursue an active policy of putting Products on the market outside the Territory and in relation to the Products not to engage in advertising specifically aimed at such territories or to establish or maintain any branch, distribution depot or subsidiary there. Furthermore, the Distributor shall not put any Products on markets outside the EC and the European Economic Space.

OMEGA will use its best endeavours in order to avoid infiltration of OMEGA watches into the Territory from other sources.

* * *

David S. Richman, Esq. (State Bar No. 94325)
Patricia S. Riordan, Esq. (State Bar No. 187418)
STEPHAN, ORINGHER, RICHMAN,
THEODORA & MILLER, P.C.
2029 Century Park East, Sixth Floor
Los Angeles California 90067-2907
Telephone: (310) 557-2009
Facsimile: (310) 551-0283
E-Mail: drichman@sortm.com
priordan@sortm.com

Matthew C. Wagner, Esq.
Collen IP
80 South Highland Avenue
Ossining, New York 10562
Telephone (914) 941-5668
Telecopier (914) 941-6091
mwagner@collenip.com

Attorneys for Plaintiff Omega S.A.

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA – WESTERN DIVISION

OMEGA S.A., Plaintiff, vs. COSTCO WHOLESALE CORPORATION,, Defendant.	Case No. CV04-5443 (TJH) (RCx) Honorable Terry J. Hatter, Jr., Crtrm. 17 **DECLARATION OF DAVID POLUTRAK IN SUPPORT OF PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT** (Filed Dec. 5, 2006)

NON-PUBLIC VERSION – CONDITIONALLY FILED UNDER SEAL

[Filed concurrently with Notice of Motion and Motion for Summary Judgment; Statement of Uncontroverted Facts and Conclusions of Law; Declarations of Sukru Cital; Raynald Aeschlimann, Thomas P. Gulick; (Proposed) Order and (Proposed) Judgment]

Date: To be determined pursuant to Court order of 11/21/06
Time: 9:30 a.m.
Crtrm.: 17

Date Action Filed: July 14, 2004
Trial Date: February 6, 2007

DECLARATION OF DAVID POLTURAK

I, David Polturak declare as follows:

1. I am an officer of Roltime Ltd., located at ~~19; Lechi Street, 51200 Bnei Brak~~, [7, Imber St. 49002, Petach-Tikva] Israel, an authorized distributor of Omega brand goods in Israel, Gaza Strip and West Bank, including the duty free area of the Airport of Tel Aviv. The facts set forth in this declaration are personally known to me and I have first hand

knowledge thereof. If called as a witness, I could and would competently testify to all the following facts that are within my personal knowledge.

2. This declaration is submitted in support of Omega S.A. and The Swatch Group (U.S.) Inc.'s ("Plaintiffs") Motion for Summary Judgment.

3. On December 8, 1998, Roltime Ltd. entered into a Distributorship Agreement with Omega, S.A., the Plaintiff in this Action. A true and correct copy of the Distributorship Agreement is attached hereto as Exhibit A.

4. Pursuant to the Distributorship Agreement, Roltime Ltd's sales are limited to Israel, Gaza Strip and West Bank including the duty free area of the Airport of Tel Aviv.

5. On April 14, 2004, Roltime Ltd. purchased sixteen (16) Omega Seamaster Watches, Serial Nos. 80492924, 80507888, 80520931, 80659067, 80680621, 80688275, 80702526, 80705265, 80705341, 80705938, 80718661, 80720219, 80720700, 80720886, 80723308, and 80723414 model number 2531.80 from Omega, S.A. Attached as Exhibit B are true and correct copy of the invoices for the purchase of watches with Serial Numbers 80492924, 80507888, 80520931, 80659067, 80680621, 80688275, 80702526, 80705265, 80705341, 80705938, 80718661, 80720219, 80720700, 80720886, 80723308, and 80723414.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed Nov., 8, 2006 at ~~Bnei Brak~~, Petach-Tikua Israel.

/s/ David Polturak
David Polturak

EXHIBIT A

DISTRIBUTORSHIP AGREEMENT

This Agreement is made this 8th day of DECEMBER, 1998

between

OMEGA LTD, a company existing by virtue of the laws of Switzerland and having its principal place of business at Rue Stämpfli 96, CH-2500 Bienne 4, Switzerland. (hereinafter "**OMEGA**")

and

ROLTIME LTD., a company existing by virtue of the laws of Israel and having its principal place of business at 19, Lechi Street, 51200 Bnei Brak, Israel. (hereinafter "The Distributor")

****

DEFINITIONS

For the purpose of this Agreement the following definitions shall apply:

"*Product(s)*" shall mean watches bearing the Trademark "**OMEGA**", manufactured, sold and distributed by **OMEGA**.

"*Point(s) of Sale*" shall mean a store that is specialised in the sale of watches that meets the quality standards set forth hereinafter and defined in Schedule A attached hereto.

"*Trademarks*" shall mean all registered trademarks and other trademarks, trade-names, logos and symbols used by **OMEGA** in connection with the sale and

distribution of the Products (as defined above) and specified in Schedule B attached hereto and as periodically amended by **OMEGA**.

"*Territory*" shall mean **Israel, Gaza Strip and West Bank including the duty free area of the Airport of Tel Aviv**.

"*Distribution Channel*" shall mean a sub-distributor appointed by the Distributor with prior approval of **OMEGA**.

CHAPTER 1: DISTRIBUTION

A) RIGHTS AND OBLIGATIONS OF THE DISTRIBUTOR

Article I Distributorship for Israel, Gaza Strip and West Bank

OMEGA hereby appoints the Distributor as its **exclusive** distributor of watches bearing the trademark **OMEGA** (hereinafter called "the Products") for the territory of **Israel, Gaza Strip and West Bank** subject to the terms and conditions of this Agreement For the duty free area of the **Airport of Tel Aviv, OMEGA** hereby appoints the Distributor as its **non-exclusive** distributor of the Products.

The Distributor shall buy and sell the Products on its own account and name.

Article II Territory Infringements

The Distributor shall not sell and/or distribute the Products outside the Territory and shall take all necessary steps to avoid any direct or indirect re-exportation of the Products.

OMEGA has the right to request that the Distributor record all watches sold, listing date of sale, name of customer, PIC (**P**roduct **I**dentification **C**ode)-reference and movement number. **OMEGA** may have access to this information at any time.

* * *

David S. Richman, Esq. (State Bar No. 94325)
STEPHAN, ORINGHER, RICHMAN,
THEODORA & MILLER, P.C.
2029 Century Park East, Sixth Floor
Los Angeles, California 90067-2907
Telephone: (310) 557-2009
Facsimile: (310) 551-0283
E-Mail: drichman@sortm.com

Matthew C. Wagner, Esq.
Collen IP
80 South Highland Avenue
Ossining, New York 10562
Telephone (914) 941-5668
Telecopier (914) 941-6091
mwagner@collenip.com

FILED UNDER SEAL

Attorneys for Plaintiff Omega S.A.

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA – WESTERN DIVISION

OMEGA S.A., Plaintiff, vs. COSTCO WHOLESALE CORPORATION,, Defendant.	Case No. CV04-5443 (TJH) (RCx) Honorable Terry J. Hatter, Jr., Crtrm. 17 **DECLARATION OF THOMAS P. GULICK IN SUPPORT OF OMEGA S.A.'S MOTION FOR SUMMARY JUDGMENT SUMMARY ADJUDICATION** (Filed Dec. 5, 2006)

NON-PUBLIC VERSION – Conditionally Filed Under Seal

[Filed concurrently with Notice of Motion and Motion for Summary Judgment; Statement of Uncontroverted Facts and Conclusions of Law; Declarations of Sukru Cital; David Polturak, Raynald Aeschlimann; Thomas P. Gulick and (Proposed) Order and (Proposed) Judgment]
Date: To be determined pursuant to Court order of 11/21/06
Time: 9:30 a.m.
Date Action Filed: July 14, 2004
Trial Date: February 6, 2007

DECLARATION OF THOMAS P. GULICK

I, Thomas P. Gulick, declare as follows:

1. I am an attorney admitted pro hac vice to practice before this Court, and am employed at Collen IP, attorneys of record for Plaintiff Omega S.A. ("Plaintiff"). The facts set forth in this Declaration are personally known to me and I have firsthand knowledge thereof. If called as a witness, I could and would competently testify to all facts within my personal knowledge.

2. This Declaration is made in support of Plaintiff's Opposition to Defendant's Motion for Summary Judgment or in the alternative, partial Summary Adjudication.

* * *

5. On March 12, 2003, Plaintiffs registered the copyright on the Omega Globe Design. A true and correct copy of the certificate of registration for the copyright on Omega Globe Design is attached hereto as Exhibit C.

* * *

8. On August 23, 2005, Matthew C. Wagner, a partner at Collen IP, deposed Stephanie Walker in this action. This transcript was prepared and provided by the court reporter who transcribed the deposition. A true and correct copy of relevant portions of Ms. Walker's deposition is attached hereto as Exhibit F.

* *

20. As part of Defendant's document production produced during discovery, Costco produced Document Number 236, a letter from Costco employee Rick Delie to The Swatch Group (U.S.) Inc. employee Yann Gamard regarding a potential partnership between the companies. A true and correct copy of said document is attached hereto as Exhibit R.

21. As part of Defendant's document production produced during discovery, Costco produced

Document Number 202-203, which is an email from Costco employee Stephanie Walker to The Swatch Group (U.S) Inc. employee Caroline Faivet regarding a potential partnership between the companies. A true and correct copy of said document is attached hereto as Exhibit S.

* * *

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed December 5, 2006, at Ossining, New York.

/s/ Thomas P. Gulick
Thomas P. Gulick

87

OMEGA SA GLOBE DESIGN

81825

EXHIBIT F

HIGHLY CONFIDENTIAL
(60 to end of transcript)
Bind and seal separately

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.), INC., Plaintiff.	)	Case No. CV04-5443 TS [illegible] (RCx)
vs.	)	
COSTCO WHOLESALE CORPORATION, Defendant.	)	

DEPOSITION OF STEPHANIE WALKER,
VOLUME 1
August 23, 2005
Issaquah, Washington

(This transcript designated Confidential and portions designated Highly Confidential)

Reported by:
Mary W. Miller
CCR No. 2653
Job No. 74747/176663

* * *

[113] Q. Was it part of the dialogue between you and the representatives at Swatch Group that Costco would agree not to buy Omega, Longines and Rado from secondary markets if Swatch Group would sell them directly?

A. That is part of the conversation.

Q. Did you specifically have any dialogue with anyone at Swatch Group in that regard?

A. With Caroline.

Q. And was the nature of that dialogue that you were committing to Caroline that, for example, even if ENE Limited asked you what models of Omega, for example, that you wanted to buy, that you wouldn't respond or tell them that you weren't interested in buying Omega models?

A. Can you reread the question. It was a long question.

Q. Sure.

(Question on page 113, Lines 13 through 17, read by the reporter.)

A. It wasn't a commitment because we were still trying to have a dialogue, if we could develop a relationship.

Q. Well. I'm speaking about the offer. You had something in [114] mind when you were offering to engage in this relationship with Caroline and The Swatch Group.

A. Correct.

Q. And as part of that offer you were making, you were offering to commit not to buy from these secondary markets, Omega, Longines and Rado, correct?

A. Commit, but a lot of offers come to me unsolicited as I said earlier.

Q. Sure. I'm not speaking about the unsolicited offers. Because as I understand it, all you have to do is nothing.

A. Correct.

Q. You just don't have to respond, but in this circumstance we're speaking about specifically ENE Limited and Mr. Mizrahi who asked from time to time for your wish list of Omega models that you wanted to buy for Costco, right?

A. Correct.

Q. And my question is, as part of your offer to Caroline and The Swatch Group, did that entail that if Mr. Mizrahi, or any other vendor secondary market supplier were to ask you what models you wanted to buy of Omega, that you would say none?

A. I would say none, yes.

* * *

[125] A. This specific? I recognize what this document represents.

Q. What does it represent?

A. An offer.

Q. An offer from who?

A. ENE

Q. That would be Mr. Mizrahi?

A. Yes, I'm sorry.

Q. So this is the form in which you would receive an Offer from ENE Limited?

A. Yes.

Q. A handwritten fax like this?

A. Yes.

Q. And referring your attention to Costco 259, the style numbers, the 2531.80?

A. Yes.

Q. And that represents the Omega style number?

A. Yes.

Q. And 222915 represents Costco's SKU number?

A. Correct.

Q. And the quantity that he's offering to sell is ten?

A. Correct.

Q. And the price at which he is offering to sell it to Costco is what?

A. Well, he's saying the retail is 12.99 but I think that's incorrect. I think that was our retail.

* * *

[135] Q. Show you what's been marked as Exhibit L and ask you if you recognize that document?.

A. Yes.

Q. And what is it?

A. It's a buy sheet.

Q. And in the upper left hand corner the brand Omega is referenced?

A. Correct.

Q. And the date of offer?

A. Correct.

Q. And this is the reference to what you've been referring to as receiving an offer from a vendor such as ENE of the type that we just discussed in Exhibit-I?

A. Correct.

* * *

[137] Q. Now, the title of this document is what?

A. It says Diverted Watch Offer.

Q. What does diverted mean?

A. Purchasing from a secondary market.

Q. And where are those goods being diverted from?

A. I don't know. It's just what the terminology that's always been used in the department.

Q. And that was like that before you got there?

A. Yes.

* * *

EXHIBIT R

COSTCO
WHOLESALE Memorandum

To: Yann Gamard

From: Rick Delie

Date: October 13, 2003

Re: Swatch Strategy

Cc: Dennis Knapp; Megghan Harruff; Stephanie Walker; Robert Emmons, Caroline Falvet; Michael Benavente

As stated in our meeting in N.Y., Costco is interested in a direct business relationship with the Swatch Group. The 3 key focus bands are Rado, Longines and Omega.

Yann, as you are well aware we have many very strong National prestigious brands at Costco. (Waterford, Titliest, Dom Perignon, etc.) All are direct relationships.

Our focus is to establish a mutually beneficial relationship that does not tarnish or hurt the swatch groups distribution or sales in anyway. We have been successful at this strategy.

1) The line should be open and we work together to determine the best distribution strategy.

2) Sku's would be limited.

3) The goal would be to buy from the swatch group only, not outside sources. Costco would not purchase indirect merchandise if the

following parameters are met in the business relationship:

- Swatch warranty applies.
- Best available payment terms.
- Authorization to use repair facilities.
- Purchase of transition (discontinued) merchandise is better than dealer cost.
- 80% of purchases from Omega would be Constellation, Seamaster.
- Costco would purchase approximately $8.5M at cost from Omega, $4M Longines/ Rado yearly with a 5-10% growth plan.

Costco is committed to selling quality branded goods and developing strong direct relationships.

We look forward to working with you and the swatch group.

EXHIBIT S

Julieth Donato

From: Stephanie Walker
Sent: Friday, June 27, 2003 5:16 PM
To: 'Caroline Faivet (E-mail)'
Subject: Rado Strategy

Hi Caroline,

Hope that you are well and are planning a nice weekend. I heard that you finally have some nice weather. I just wanted to recap some of the discussions that we have had in regards to our relationship. I think there are incredible opportunities with both of our companies. Below are some details of Costco and our goal in developing this relationship with your company. I hope that you will make it to the Seattle market as I would love to give you a tour of Costco overall so that you see that our strategy in watches exist in all categories of the company.

- Partner with key people in the industry who are committed to continued growth. I look at companies that continue to focus on quality, innovation, and continued brand growth.
- Costco demographic:

Household income	Mean	$107,500
	Median	$85,000
Household Net Worth	Mean	$1,163,900
	Median	$506,500

- Some of our fun stats:

  One million transactions on average a day through the registers world wide.

Costco is American Express 2nd largest merchant (#1 Delta Sky Mile card).

Largest retailer of classified growth Bordeaux in the U.S.

Largest fine wine retailer in the U.S. (in only 280 warehouses because of liquor license).

Largest retailer of Dom Perignon and Veuve Clicquot champagne in the U.S.

USDA Choice fresh meat = volume 560 million pounds in U.S.

In very part of Costco business philosophy is to fine [sic] key quality items and develop strong partnerships with our vendors.

Product –

- The line should be open and that we work together to determine the best strategy. On sensitive items/markets I need you to be open with me and let me know so that I can work with you. It is not my goal to hurt your brand as I want to help build the brand. For example, if you have an upset dealer in Eureka, Ca just call me so that we can work together – maybe I pull the watch out and send in something different or maybe it's a warehouse that we should not carry your product in at all. We have to work through these issues together openly and upfront to cross any hurdles together so we are able to do business that makes sense for both companies.

- I am interested in product that you may start to discontinue – I would rather you look to me first before your other options as I might be able to show an incredible value to my member on key items. We must be careful that we do not have really bad styling as the 8 million members in a club a week get an impression of the brand that they see on the shelf.

- I am an "item" buyer. My focus is QUALITY AND VALUE. Your line is very large. I am not able to carry every watch. I am limited to 1-4 ladies and 1-4 men's style. For example, (not a Rado watch but another Swatch group brand) have a ladies and a men's style that will do more than a million dollars each this year. Those two watches would exceed 1.5+ million if I were able to stock the watch all of the time and be in all clubs. When I find a successful item I want to get behind that item and drop anything similar (different dial colors, etc.). Some would say that is a downfall if you are looking at a particular watch as a customer. That's what we do at Costco it is simply the 80/20 rule.

- My staff and I control where product is distributed. We are able to deal with sensitive items and markets. I am not interested in hurting your other customers but I do believe I will help build their business (I have to refer business to the local jeweler if a watch is not in my selection or they want a different dial color). We build this "Treasure Hunt" effect if you see the watch your

looking for – you better buy it today as it might be there the next time your [sic] in the club.

- My goal is to buy from you and not buy product from other sources inside or outside the U.S. I would like to be able to give you projections for this year and do buy plans as that helps both of us with inventory needs. I would only purchase product from other sources in the event I was not being offered the best cost, styling, or that you could not supply me the inventory needed. I would discuss this with you upfront as to any purchases outside of our relationship. It is NOT my goal that you would walk into any Costco across the U.S. and see something that you weren't aware of and be surprised. I work very closely with our international group and it is our goal to develop a global relationship once we prove to be great partners.

I hope in the last two years you are confident in Costco as a company and that we are committed to selling quality branded goods in our clubs. Costco is not a discounter we do not look to sell something cheap we look to sell goods that offer quality and value and cause our members to "trade up" not "down" like discounters.

I look forward to working with you and as always if you need anything please let me know. Thanks.

Stephanie Walker
Watch, Handbag, and Pen Buyer

COSTCO WHOLESALE
P (425) 313-8059
F (425) 313-5602
swalker@costco.com
http://www.costco.com/

NORMAN H. LEVINE (SBN 061884)
AARON J. MOSS (SBN 190625)
SEDINA L. BANKS (SBN 229193)
GREENBERG GLUSKER FIELDS
CLAMAN & MACHTINGER LLP
1900 Avenue of the Stars, 21st Floor
Los Angeles, California 90067-4590
Telephone 310.553.3610
Facsimile 310.553.0687
nlevine@ggfirm.com
amoss@ggfirm.com
sbanks@ggfirm.com

Attorneys for Defendant
Costco Wholesale Corporation

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiffs, vs. COSTCO WHOLESALE CORPORATION, Defendant.	CASE NO. CV 04-5443 TJH(RCx) DEFENDANT COSTCO WHOLESALE CORPORATION'S RESPONSE TO PLAINTIFF'S STATEMENT OF UNCONTROVERTED FACTS AND CONCLUSIONS OF LAW (Filed Dec. 26, 2006) [Memorandum of Points and Authorities in Opposition to Motion for Summary Judgment; Declaration of

	Aaron J. Moss and Exhibits in Support Thereof; Evidentiary Objections and Proposed Order Filed Concurrently Herewith] Date: TBD Pursuant to Court Order of November 21, 2006 Time: 9:30 a.m. Courtroom: 17 Action Filing Date: July 14, 2004 Trial Date: February 6, 2007

* * *

Defendant Costco Wholesale Corporation ("Costco") hereby responds to Plaintiff Omega S.A.'s ("Plaintiff" or "Omega") Statement of Uncontroverted Facts in support of Plaintiffs' Motion for Summary Judgment as follows:

RESPONSE TO PLAINTIFF'S STATEMENT OF UNCONTROVERTED FACTS

* * *

23. On May 28, 2004, Courtney Grafeld, an employee of Swatch, purchased an Omega watch, bearing the copyrighted Omega Globe	23. Undisputed for purposes of this motion only.

Design at Defendant's retail store in City of Industry, California. Evidence: See Decl. of TPG at ¶ 9 and Ex. G, Declaration of Courtney Grafeld and Exhibits therein.	
24. On July 9, 2004, Timothy Santoni, an investigator hired by Plaintiff purchased a second OMEGA watch, bearing the Omega Globe Design copyright from a Costco retail store in Laguna Niguel, California. Evidence: See Decl. of TPG at ¶ 10 and Ex. H, Declaration of Timothy Santoni and Exhibits therein.	24. Undisputed for purposes of this motion only.

* * *

42. These watches (the 74 watches originally produced by Costco pursuant to the Preliminary Injunction) were	42. Undisputed that the watches were available at some Costco warehouse stores.

found available for sale at Costco stores throughout the United States. Evidence: See Decl. of TPG at ¶ 13 and Exhibit K, Defendant Costco's Sales by Item Report from 4/28/04-6/24/05 for Item No. 222915; See Walker Dep. at 125:18-19, 138:2-5, see Decl. of TPG at ¶ 8 and Ex. F; Also see Decl. of TPG at ¶ 12 and Ex. J, November 2, 2004 Letter from Norman Levine to David Richman.	
43. The source of most of the watches [the watches bearing the Omega Globe Design produced by Costco pursuant to the Preliminary Injunction (the initial 74, plus the additional 366)] bearing the Omega Globe Design was ENE, Ltd. Evidence: See Deposition of Emil Mizrahi ("Mizrahi Dep.") at	43. Undisputed.

62:24-63:2, 159:16-162:6, see Decl. of TPG at ¶ 14 and Ex. L.	

* * *

45. Defendant also received offers from ENE Ltd. which were marked "DIVERTED WATCH OFFER." Evidence: See Walker Dep. at 135:10-137:15, see Decl. of TPG at ¶ 8 and Ex. F. Also see Decl. of TPG at ¶ 15 and Ex. M, Diverted Watch Offer.	43. Undisputed but irrelevant. It is not unlawful to purchase genuine watches in the "secondary market" (i.e., other than from the manufacturer or its designated representatives). *See e.g., Kmart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988) (upholding Customs Service regulations preventing domestic affiliates of foreign manufacturers from blocking the importation of genuine goods manufacturer abroad); *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073 (9th Cir. 1995) (Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement nor unfair competition); *NEC Electronics v. CAL*

	Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987) (sale of genuine trademarked product by seller unauthorized to sell not a violation of Lanham Act); *Sebastian Int'l, Inc.*, 847 F.2d 1093, 1099 (3d Cir. 1988) (first sale by a copyright holder extinguishes copyright owner's rights regardless of the place of sale); *Johnson & Johnson Prods., Inc. v. DAL Int'l Trading Co.*, 798 F.2d 100, 103 n.2 (3d Cir. 1986) (retailer not liable for selling imported grey market goods that others had fraudulently procured); *John Paul Mitchell Sys. v. Randalls Food Mkts.*, 17 S.W.3d 721 (Tex. App. 2000) (no claim for tortious interference with distribution contract by defendant who purchased genuine goods from authorized distributor without manufacturer's authorization).

* * *

NORMAN H. LEVINE (SBN 061884)
AARON J. MOSS (SBN 190625)
SEDINA L. BANKS (SBN 229193)
GREENBERG GLUSKER FIELDS
CLAMAN & MACHTINGER LLP
1900 Avenue of the Stars, 21st Floor
Los Angeles, California 90067-4590
Telephone: 310.553.3610
Fax: 310.553.0687
nlevine@ggfirm.com
amoss@ggfirm.com
sbanks@ggfirm.com

Attorneys for Defendant
Costco Wholesale Corporation

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiffs, vs. COSTCO WHOLESALE CORPORATION, Defendant.	CASE NO. CV 04-5443 TJH(RCx) **DECLARATION OF AARON J. MOSS IN SUPPORT OF DEFENDANT COSTCO WHOLESALE CORPORATION'S OPPOSITION TO MOTION FOR SUMMARY JUDGMENT** (Filed Dec. 2, 2006) **NON-PUBLIC FILING – FILED CONDITIONALLY UNDER SEAL**

[Memorandum of Points and Authorities in Opposition to Motion for Summary Judgment; Response to Statement of Uncontroverted Facts and Conclusions of Law; Evidentiary Objections; and Proposed Order Filed Concurrently Herewith]

Date: TBD Pursuant to Court Order of November 21, 2006
Time: 9:30 a.m.
Courtroom: 17

Action Filing Date: July 14, 2004
Trial Date: February 6, 2007

[Pleading Omitted – Relevant Exhibits Attached]

* * *

EXHIBIT F

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC.,	)	
Plaintiffs,	)	Case No.
VS.	)	CV04-5443 TJH(RCx)
COSTCO WHOLESALE CORPORATION,	)	
Defendants.	)	

DEPOSITION OF:

ROBERT EMMONS

THURSDAY, MARCH 17, 2005

10:10 A.M.

Reported by: GINA M. CLOUD

CSR No. 6315

* * *

[79] Q. Has Omega S.A. or the Swatch Group U.S. Inc. tried to determine whether the sale of Omega watches in Costco has had any negative impact on sales of Omega watches through retail jewelers?

MR. WAGNER: Objection to form.

THE WITNESS: I believe that we have looked at the loss of distributors at times who have

dropped the line because of the competition from Costco, so that I guess in essence we have looked at and tried to see what impact that has had upon our business.

BY MR. LEVINE:

Q. What types of distributors have stopped selling Omega watches?

A. There have been a number of jewelers who dropped the line because they felt that they were competing unfairly with Costco at times.

Q. The reason I'm confused is you used the word distributors, and my understanding –

A. I'm sorry, retailers. I apologize.

* * *

[80.] A. My sales rep told me that the owner of the store said the reason they were dropping the line was that they did not want to compete with Costco anymore.

* * *

[123] Q. How did you learn that Omega Seamaster watches with the Omega Globe design were being sold at Costco?

A. We had been routinely monitoring the watches that were shipped to Costco, and we had been getting movement numbers for a number of years, and one day the watches popped up with that logo.

Q. So you were aware prior to finding the Omega Globe design in Costco stores that there had been Omega watches in Costco stores?

A. Yes.

Q. When did you first learn that?

A. Probably 2002.

Q. How did you first learn in 2002 that Omega watches were for sale in Costco?

A. I'm sure we were alerted to it by either a retailer or one of my salesmen.

* * *

[Reporter's Certificate Omitted In Printing]

EXHIBIT I

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiffs, VS. COSTCO WHOLESALE CORPORATION, Defendants.	Case No. CV04-5443 TJH (RCx) Volume I Pages 1-206 (PAGES 93-206 ARE CONFIDENTIAL – ATTORNEYS' EYES ONLY AND ARE BOUND SEPARATELY.)

A PORTION OF THIS TRANSCRIPT
WAS DESIGNATED CONFIDENTIAL –
ATTORNEYS' EYES ONLY

30(B)(6) (OMEGA) DEPOSITION OF:

RAYNALD AESCHLIMANN

WEDNESDAY, APRIL 13, 2005

10:16 A.M.

Reported by: JAN C. TRIMMER, RPR, CRR,
CSR No. 4008

CERTIFIED REALTIME REPORTER

* * *

[69] Q. So is it fair to say that Omega has made a conscious decision for the time being not to publicize the Omega globe design?

A. Not to publicize the globe design, yes.

Q. I am correct?

A. Yes.

* * *

[76] Q. Now, did you – you stated that Omega has a publicity and marketing department.

A. Uh-huh, yes.

Q. Did the publicity and marketing department make any effort to publicize the Omega globe design in the trade?

A. For the time being, no.

Q. And the reason it did not publicize it – strike that.

To your knowledge – do you read any watch trade journals?

[77] A. Sorry?

Q. Do you read any trade journals in your industry?

A. Myself?

Q. Yes.

A. Yes.

Q. Which trade journals do you read?

A. All – I mean, the main trade journal from the German written to the French one and some in English. There is not so many.

Q. Do you know the names?

A. There's one, it is called Watch Magazine, here in United States, that I read sometimes.

Q. Have you ever heard of Watch and Clock Review?

A. No.

Q. Have you ever heard of Chronos?

A. Yes.

Q. What nationality – I'm sorry – what country is that published in?

A. Chronos is published – the basic of Chronos is Germany.

Q. Have you heard of a trade publication called HR?

A. HR? No.

[78] Q. Are you aware of anything being written about the Omega globe design in any watch magazines or trade journals?

A. No.

Q. Do you know – is it your understanding that there has been nothing written about the Omega globe design in watch magazines or trade journals?

A. Yes, that's my understanding.

Q. And that is because Omega's marketing and publicity department has made a decision for the time being not to publicize the Omega globe design; correct?

A. Omega management has decided not to publicize.

* * *

[Reporter's Certificate Omitted In Printing]

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC., Plaintiffs, VS. COSTCO WHOLESALE CORPORATION, Defendant.	Case No. CV04-5433 TJH (RCx) Volume I Pages 93-206

THE FOLLOWING PORTION WAS DESIGNATED CONFIDENTIAL – ATTORNEYS' EYES ONLY

30(B)(6) (OMEGA) CONFIDENTIAL DEPOSITION OF:

RAYNALD AESCHLIMANN

WEDNESDAY, APRIL 13, 2005

1:33 P.M.

Reported by: JAN C. TRIMMER, RPR, CRR, CSR No. 4008

CERTIFIED REALTIME REPORTER

* * *

[99] Q. At the time that Omega placed the globe design on the 2531.80 back in the fall of 2003, did it notify any of its worldwide distributors to this fact?

A. No.

Q. Is there a reason that it did not notify its distributors?

A. Yes.

Q. What is the reason?

A. The reason is that we didn't want any [100] people, means distributors, to know about this as we have more than 120 distributors worldwide, and we didn't want this to be publicized or to be known from counterfeiters.

Q. I'm sorry. Why did you not want the distributors to know about the design?

A. Because whenever you inform 120 distributors on the whole world, you cannot control all of them based on the fact that, some of them are not employees of our company and they are entrepreneurs, independent wholesaler in some countries of the world.

Q. And your concern was what, if you notified them? What would happen?

A. My concern was just to keep it confidential.

Q. If you – what was the concern – what was your concern, as to what might happen if you had notified 120 distributors of the Omega globe design?

A. That maybe one or the other one would have started to talk to his – to some of his people or to

some of his friends, and that the information will have arrived at the wrong place, means other people that are counterfeiting our watches will start to work on the counterfeiting –

Q. So, in other words, that certain people [101] would start to try to work on copying the globe design?

A. Not our distributor, but that certain people in the world will start.

Q. Okay. So the goal was to keep the information confidential?

A. Yes, until we publicize it when it's on all the watches.

Q. Okay. So I take it, then, that the information is still confidential.

A. Yes.

* * *

[107] Q. Okay. But Omega does not impose any restrictions on its distributors or retailers as to whom they may resell Omega watches?

A. Not to my knowledge, no.

* * *

[111] Q. Okay. Is there anything other than your contracts with distributors that would limit them from exporting or that would prevent them from exporting to the United States?

A. I don't know. No.

* * *

[121] Q. Are there any restrictions on those Omega customers as to whom they may or may not resell Omega [122] watches to?

A. I got your question.

Depends on the contract they got, because we're just implementing today, this year, in Europe nonselective distribution contracts with all the retailers where we're fixing some precise target about, again, their territory, the way they sell the things, their sales on the Internet, for instance, et cetera, et cetera. Some of the customers have only contract which is a basic contract. So we don't impose them strict regulation about their customers.

Q. And as of today, are there any restrictions as to who the customers of the retailers can resell Omega watches to?

A. No. As long as the retailer is competing or is fulfilling all what we ask him; as for instance, standard warranty card, write the date, give the proper document, give the proper environment and give [123] the proper – the proper watch.

Q. So if a particular customer walks into Cuidad del Este –

A. Uh-huh.

Q. – and buys 100 Omega watches, is that customer – strike that.

A customer walks into Cuidad del Este, buys 100 Omega watches. There's nothing in any Omega policy that would restrict that customer from selling those 100 watches to whomever he chooses?

A. No.

Q. Even if it's someone in the United States?

A. If you're talking about the retailer, no.

Q. I'm talking about somebody who buys from the retailer.

A. Uh-huh. No.

Q. There would be no restriction imposed by Omega as to whether or not the customer or the retailer could sell those 100 watches to the United States, yes?

MR. COLLEN: Are you talking about, –

MR. MOSS: Can I get an answer?

MR. COLLEN: Yes, sure.

THE WITNESS: No.

[124] BY MR. MOSS:

Q. No restriction?

A. No.

* * *

[128] Q. Does Omega's written agreement with its [129] Switzerland distributor prohibit the Switzerland distributor from selling watches that will be exported to the United States?

A. No, because we have customer buying, American buying watches in Switzerland.

Q. So there are no – are there any restrictions placed upon the Switzerland retailer with regard to who he may resell watches to?

A. No, especially in Switzerland. Fifty percent of our customers are foreigners in Switzerland.

* * *

[133] MR. MOSS: Okay. Counsel, I've got to state an objection for the record. We have not been provided with any agreements other than Turkey, Paraguay, and Israel, and these are documents that we've been asking for, actually in two separate requests, one that dates back to last September, and then a second request that dates back to January, where we specifically asked for all of Omega's distribution contracts.

In the first set of requests we specifically asked for all documents that relate to the distribution or sale of Omega Seamaster watches in any location during any portion of the period January 1, 2001, to the present. That's request No. 4 of the first set.

[134] And in the second set we used Exhibit 9 as a guide and asked for all agreements between Omega

and/or Swatch and the distributor located in Paraguay, Egypt, Italy and the other countries referenced in Exhibit 9.

And we were told, in response to this document, the plaintiffs will produce all non-privileged relevant documents responsive to this request. And I'm hearing now for the first time from this witness that there may be other written agreements with other distributors that were not provided to us, and I feel that we don't have any choice but to take the position that Omega has to be precluded from using those.

If you like, I'm happy to continue the deposition at nine a.m. tomorrow if you can get these agreements, so that he doesn't have to come back, but we're put in a terribly unfair position by not having these agreements, if there are any, provided to us.

MR. COLLEN: Well, first of all, it's my understanding that we've provided whatever has been required, and anything that we had objection to has been noted for the record. I will take your further concerns under advisement.

* * *

[162] Let's turn to the distributor in Paraguay, [Name Omitted].

According to this agreement, they sold watches on February 26, 2004, that ended up at Costco; is that correct?

A. Yes.

* * *

[179] Q. Okay. But many of the distributors on Exhibit 9 that sold watches that ended up at Costco continue to be distributors today, yes?

[180] A. Yes.

Q. And no legal action was taken against them; correct?

A. Legal action, no. Other action, yes.

Q. They were not terminated?

A. No.

* * *

Has Omega taken any legal action against any company other than Costco for selling watches bearing the Omega globe design?

A. Not for the time being.

Q. Are you aware of any other retail outlets in the United States that have sold Omega watches bearing the Omega globe design?

A. Not to my knowledge.

Q. Are you aware of any retailers in the United States selling Omega watches that don't bear the globe design, that are not authorized to do so?

A. Yes.

Q. And have you taken any action against any of those retailers?

A. Not to my knowledge.

Q. Why not?

A. Why not?

Q. Right.

[181] A. Because we never attack them on the other court.

Q. I'm sorry?

A. We did not start any claim, we did not make any claim against them.

Q. Right. And my question is why.

A. Why? Because we were not willing to do it.

Q. So the only company that you were willing to file a claim against was Costco?

A. Yes.

Q. Now, you are aware of Omega watches being sold on the Internet; correct?

A. Yes.

Q. There are lots of websites that offer Omega watches for sale on the Internet, yes?

A. Yes.

Q. Hundreds probably?

A. There are more offering fake watches even.

Q. But there are probably hundreds selling real watches without Omega's express authority; correct?

MR. COLLEN: Objection. There is no foundation for that.

THE WITNESS: There is no watches sold on the Internet that are official Omega watches.

[182] BY MR. MOSS:

Q. Have you ever – well, by "official" you mean –

A. They're all –

Q. – expressly authorized to be sold by Omega?

A. That's what I wanted to say.

Q. But you are aware of websites selling genuine Omega watches?

A. Secondhand watches, yes.

Q. What do you mean by "secondhand"?

A. It means that the watches that are on the Internet have not been – have been sold from an official Omega retailer to the guy offering that on the Internet, because there is no Internet site that has an official Omega authorization, means that whenever you buy an Omega from an Internet site, you buy a secondhand watch.

Q. By "secondhand," simply meaning resold?

A. Yes.

Q. Okay. Have you ever taken any action against any of the Internet sites that are selling Omega watches?

A. Yes.

Q. Who have you taken action against?

A. I don't remember the name, but all the one [183] claiming to be official authorized –

Q. Forget "claiming to be official."

What about Internet sites simply selling Omega watches that they bought from other retailers or distributors?

MR. COLLEN: I'm going to object to this line of questioning to the extent that I think it goes beyond what's identified in the 30(b)(6) notice, that is, sales on the Internet.

MR. MOSS: We're certainly able to ask him questions that go beyond the notice.

THE WITNESS: No.

MR. MOSS: It's our right to do that.

THE WITNESS: No.

* * *

[Reporter's Certificate Omitted In Printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

OMEGA S.A. and THE SWATCH GROUP (U.S.) INC.,

Case No. CV 04-5443 TJH (RCx)
Plaintiffs,

– against –

COSTCO WHOLESALE CORPORATION,

Defendant.

April 20, 2005
4:55 p.m.
Volume II

*** CONFIDENTIAL – ATTORNEYS' EYES ONLY ***

Deposition of RAYNALD AESCHLIMANN, taken by Defendant, pursuant to Notice, held at Prime Office Centers, 521 Fifth Avenue, New York, New York, before Linda J. Greenberg, a Certified Shorthand Reporter and Notary Public of the State of New York.

* * *

[240] MR. WAGNER: Mr. Moss, this is Mr. Wagner, just following up on a point that was raised in the prior session.

There has been subsequent efforts [241] to search for the distributor agreements that there was some testimony about last time and those are – those don't exist.

We want to confirm that what has been produced are the only written executed documents that there is available for production.

* * *

[248] Q. But there is no term, either verbal or written, that prevents their customers from selling watches that will be exported to the United States, correct?

A. I don't know.

Q. Who would know that?

A. It's a relationship between these customers and their customers, so it will be different for each of these customers.

Q. So it's up to the retailer to set its own policy with regard to its customers?

A. Yes.

Q. And that's the same in China as well?

A. Yes.

[249] Q. And that's the same in Germany?

A. Yes.

Q. And Norway?

A. Yes.

* * *

[Reporter's Certificate Omitted In Printing]

EXHIBIT K

COSTCO
WHOLESALE

Customer Satisfaction Policy

Costco Wholesale is committed to selling high-quality products, including brand-name products, at the lowest possible prices. In some cases, manufacturers may try to influence you to purchase their products at higher prices by limiting their warranties to products sold only to their "authorized" dealers. This may not include Costco. Whenever you buy a watch from Costco, however, be assured that the watch is fully covered under Costco's Customer Satisfaction Policy to either: (I) repair or replace the watch or, (II) refund the full purchase price.

If your watch requires service or you are dissatisfied with your purchase for any reason, you may either (I) take your watch to any Costco location along with the original purchase receipt and the completed Costco Watch Registration Form and Costco will repair the watch, replace the watch, or refund your money, or (II) you may mail your watch prepaid along with the original purchase receipt and the completed Costco Watch Registration Form directly to:

Costco Wholesale
Watch Service
800 Lake Drive
Issaquah WA Drive 98027

If you choose to mail your watch to Costco Watch Service, it will be serviced and returned to you prepaid. Costco reserves the right to refund the full purchase price of the watch if it is unable to repair or replace the watch.

EXHIBIT Q

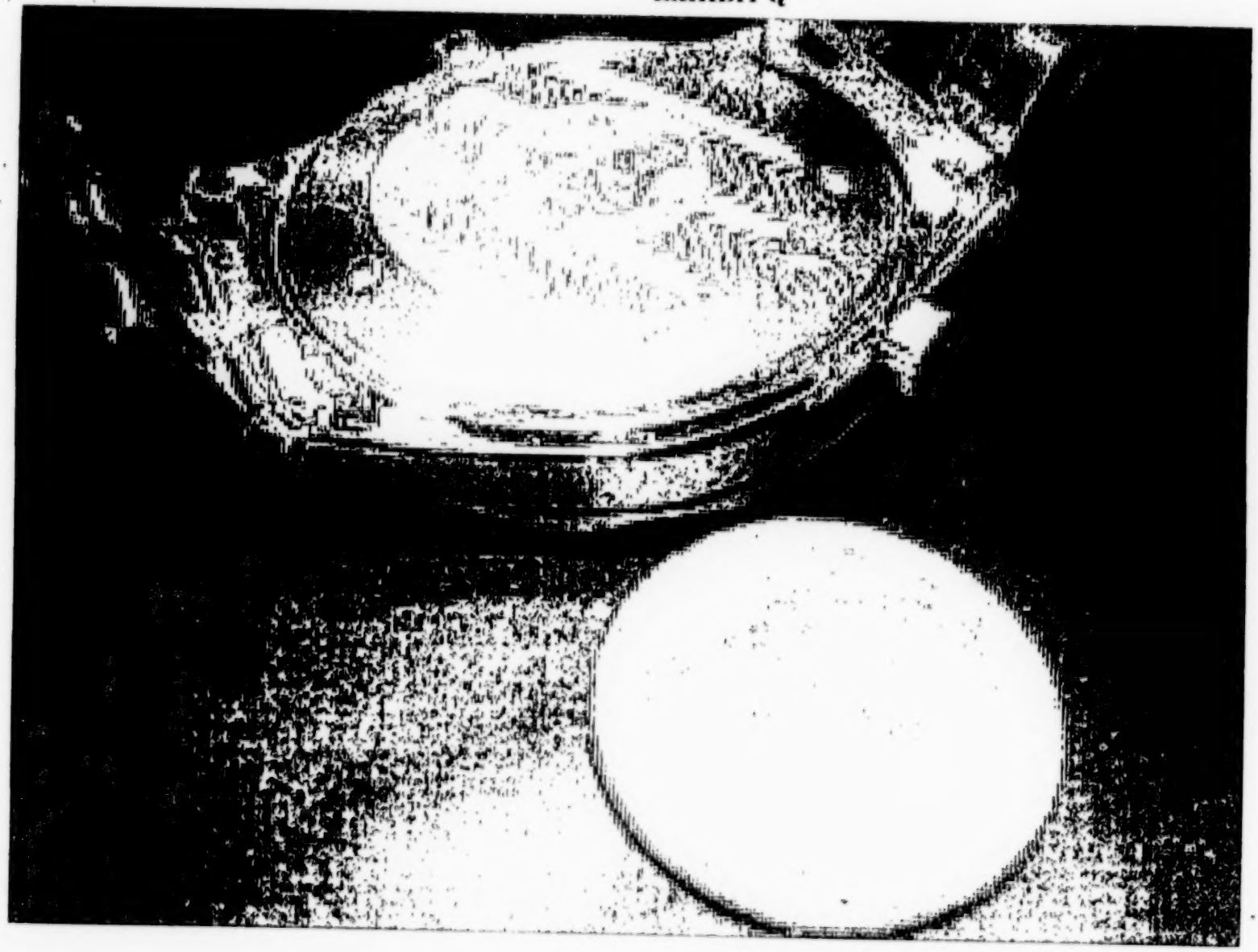

EXHIBIT S

OPERATING INSTRUCTIONS

[LOGO]

OMEGA

OMEGA International Warranty

(Valid for U.S.A. only)

Your OMEGA® watch is warranted by OMEGA SA* FOR A PERIOD OF TWENTY-FOUR (24) MONTHS, THIRTY-SIX (36) MONTHS FOR WATCHES WITH A CO-AXIAL ESCAPEMENT, FROM THE DATE OF PURCHASE under the terms and conditions of this warranty. The International OMEGA warranty covers material and manufacturing defects existing at the time of delivery of the purchased OMEGA watch ("defects"). The warranty only comes into force if the warranty certificate is dated, fully and correctly completed and stamped by an official OMEGA dealer ("valid warranty certificate").

During the warranty period and by presenting the valid warranty certificate, you will have the right to have any defect repaired free of charge. In the event that repairs are unable to restore the normal conditions of use of your OMEGA watch, OMEGA SA guarantees its replacement by an OMEGA watch of identical or similar characteristics. The warranty for the replacement watch ends twenty-four (24) months, thirty-six (36) months for watches with a Co-Axial Escapement, after the date of purchase of the replaced watch.

This manufacturer's warranty does not cover:

- the life of the battery;
- normal wear and tear and aging (e.g. scratched crystal; alteration of the colour and/or material of non metallic straps and chains, such as leather, textile, rubber);
- any damage on any part of the watch resulting from abnormal/abusive use, lack of care, negligence, accidents (knocks, dents, crushing, broken crystal, etc.), incorrect use of the watch and non-observance of the use directions provided by OMEGA SA;
- the OMEGA watch handled by non-authorized persons (e.g. for battery replacement, services or repairs) or which has been altered in its original condition beyond OMEGA SA's control.

ALL APPLICABLE IMPLIED WARRANTIES, INCLUDING THE IMPLIED WARRANTY OF MERCHANTABILITY AND OF FITNESS FOR A PARTICULAR PURPOSE GIVEN TO YOU BY LAW ARE HEREBY LIMITED IN DURATION TO THE DURATION OF THIS WARRANTY UNDER NO CIRCUMSTANCES WILL OMEGA SA BE LIABLE FOR ANY INDIRECT OR CONSEQUENTIAL DAMAGES OF ANY KIND.

Some states do not allow limitations on how long implied warranties last, or exclusions or limitations of incidental or consequential damages, so exclusions or limitations mentioned may not apply to you. This

warranty gives you specific legal rights and you may also have other rights which may vary from state to state.

OMEGA SA's OBLIGATION IS STRICTLY LIMITED TO REPAIR OR REPLACEMENT AS EXPRESSLY STATED IN THIS LIMITED WARRANTY. YOUR OFFICIAL OMEGA DEALER CARRIES SOLE RESPONSIBILITY FOR ANY OTHER GUARANTEES.

The OMEGA customer service ensures the perfect working order of your OMEGA watch. If your watch needs maintenance, rely on an official OMEGA dealer or an authorized OMEGA Service Center as set forth in the enclosed list: they can guarantee service according to OMEGA SA's standards.

*OMEGA SA, Rue Stämpfli 96, 2500 Bienne 4

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are registered trademarks

OMEGA International Warranty

Your OMEGA® watch is warranted by OMEGA SA* for a period of twenty-four (24) months, thirty-six (36) months for watches with a Co-Axial Escapement, from the date of purchase under the terms and conditions of this warranty. The International OMEGA warranty covers material and manufacturing defects existing at the time of delivery of the purchased OMEGA watch ("defects"). The warranty only comes into force if the warranty certificate is dated, fully

and correctly completed and stamped by an official OMEGA dealer** ("valid warranty certificate").

During the warranty period and by presenting the valid warranty certificate, you will have the right to have any defect repaired free of charge. In the event that repairs are unable to restore the normal conditions of use of your OMEGA watch, OMEGA SA guarantees its replacement by an OMEGA watch of identical or similar characteristics. The warranty for the replacement watch ends twenty-four (24) months, thirty-six (36) months for watches with a Co-Axial Escapement, after the date of purchase of the replaced watch.

This manufacturer's warranty does not cover:

- the life of the battery;
- normal wear and tear and aging (e.g. scratched crystal; alteration of the colour and/or material of non metallic straps and chains, such as leather, textile, rubber);
- any damage on any part of the watch resulting from abnormal/abusive use, lack of care, negligence, accidents (knocks, dents, crushing, broken crystal, etc.), incorrect use of the watch and non-observance of the use directions provided by OMEGA SA;
- indirect or consequential damages of any kind resulting from e.g. the use, the non-functioning, the defects or the inaccuracy of the OMEGA watch;

- the OMEGA watch handled by non-authorized persons (e.g. for battery replacement, services or repairs) or which has been altered in its original condition beyond OMEGA SA's control.

Any further claim against OMEGA SA e.g. for damages additional to the above described warranty is expressly excluded, except mandatory statutory rights the purchaser may have against the manufacturer.

The above manufacturer's warranty:

- is independent of any warranty that may be provided by the seller, for which he carries sole responsibility.
- does not affect the purchaser's rights against the seller nor any other mandatory statutory rights the purchaser may have against the seller.

The OMEGA customer service ensures the perfect maintenance of your OMEGA watch. If your watch needs attention, rely on an official OMEGA dealer or an authorized OMEGA Service Center as set forth in the enclosed list: they can guarantee service according to OMEGA SA's standards.

*OMEGA SA
Rue Stämpfli 96, 2500 Bienne 4
**OMEGA SA Specialist Dealer in EU Countries
OMEGA® and [Image]®
are registered trademarks

IMPORTANT:

Some watches are fitted with a screw-in crown which must be unscrewed before use. After use, push the crown into position 1, press and then screw in the crown (to ensure watertightness).

OMEGA

David S. Richman, Esq. (State Bar No. 94325)
David E. Mead, Esq. (State Bar No. 155827)
STEPHAN, ORINGHER, RICHMAN,
THEODORA & MILLER, P.C.
2029 Century Park East, Sixth Floor
Los Angeles, California 90067-2907
Telephone: (310) 557-2009
Facsimile: (310) 551-0283
E-Mail: drichman@sortm.com

Jess M. Collen, Esq.
Matthew C. Wagner, Esq.
Thomas P. Gulick, Esq.
Collen IP
The Holyoke-Manhattan Building
80 South Highland Avenue
Town of Ossining
Westchester County, New York 10562
Telephone (914) 941-5668
Telecopier (914) 941-6091
E-Mail: mwagner@collenip.com

Attorneys for Plaintiff OMEGA S.A.

[Declaration Of Matthew C. Wagner
Continues On Next Page]

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA – WESTERN DIVISION

OMEGA S.A., Plaintiff, vs. COSTCO WHOLESALE CORPORATION, Defendant.	Case No. CV04-5443 TJH (RCx) Honorable Terry J. Hatter, Jr., Dept. 17 **DECLARATION OF MATTHEW C. WAGNER IN SUPPORT OF PLAINTIFF'S REPLY IN SUPPORT OF ITS MOTION FOR SUMMARY JUDGMENT** **[FILED UNDER SEAL]** [Filed concurrently with Plaintiff's Reply in Support of Plaintiff's Motion for Summary Judgment attached thereto] Date: To be determined by court order of 11/21/06 Time: 9:30 a.m. Ctrm.: 17 Date Action Filed: July 14, 2004 Trial Date: February 6, 2007

[Pleading Omitted; Relevant Exhibit Attached]

EXHIBIT A

ORIGINAL

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

OMEGA S.A. and THE SWATCH GROUP, (U.S.) INC.,

Plaintiffs,

vs. CV04-5443 (TJH) (RCx)

COSTCO WHOLESALE CORPORATION,

Defendant.

HIGHLY CONFIDENTIAL

DEPOSITION OF EMIL MIZRAHI
Tuesday, July 25, 2006
10:00 a.m.

Reported by:
Joan Urzia, RPR
JOB NO. 186273

* * *

[135] Do you know for certain?

THE WITNESS: That they come from overseas? By the pricing that we buy it, and it's got to be.

Q In your conversations with the buyers at Costco, did you ever tell Maureen or Stephanie that?

A That what?

Q That the goods that you were selling them, the Omega watches that you were selling them were acquired by your supplier outside of the United States?

A If we told them that this comes from overseas?

Q Yes.

A Yes.

Q Who did you tell that to?

A To Stephanie.

* * *

[139] Q Now ENE Limited is not an authorized dealer of Omega watches, right?

A No.

MR. HOFFNER: By no, he means yes, so we all understand that.

MR. LEVINE: He means correct.

MR. HOFFNER: Yes, you're correct, they're not an authorized dealer.

MR. WAGNER: I think we all do understand that.

MR. HOFFNER: Your question was a negative.

MR. WAGNER: It was, yes.

ENE is not an authorized dealer, and he responded no, meaning no, we are not an authorized dealer.

Q Is that correct?

A Correct.

Q Did Maureen or Stephanie ever ask if ENE was authorized by Omega?

A No, but they know that we're not.

[140] Q Why do you say that?

A We fill up on this document, how can we be a dealer.

Q I don't know what you mean by that.

A If we fill up all this information, how can we be a dealer?

Q Meaning if you were authorized, then there would be no need for all of that?

A I don't think so.

* * *

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PETITIONER'S BRIEF

Supreme Court, U.S.
FILED
JUL 2 - 2010
OFFICE OF THE CLERK

No. 08-1423

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF FOR THE PETITIONER

NORMAN H. LEVINE
AARON J. MOSS
GREENBERG GLUSKER FIELDS CLAMAN & MACHTINGER LLP
1900 Ave. of the Stars
Los Angeles, CA 90067
(310) 553-3610

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500
renglert@robbinsrussell.com

Counsel for Petitioner

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QUESTION PRESENTED

Under the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), the owner of a copy "lawfully made under this title" may resell that copy without the authority of the copyright holder. In *Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998), this Court held that "the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." In the decision below, the Ninth Circuit held that *Quality King* is limited to its facts, which involved goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

RULE 24.1(b) AND 29.6 STATEMENT

Pursuant to Supreme Court Rule 24.1(b), petitioner Costco Wholesale Corporation states that all parties to the proceeding below appear in the caption of the case on the cover page.

Pursuant to Supreme Court Rule 29.6, petitioner states that Davis Selected Advisers, LP controls 10% or more of petitioner's corporate stock.

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BRIEF FOR PETITIONER

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-17a) is reported at 541 F.3d 982. The district court's order granting petitioner's motion for summary judgment (Pet. App. 18a-19a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on September 3, 2008. Pet. App. 1a. Rehearing was denied on February 17, 2009. Pet. App. 20a-21a. The petition for a writ of certiorari was filed on May 18, 2009, and granted on April 19, 2010. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 106 provides in pertinent part:

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; * * * [and] (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending * * *.

17 U.S.C. § 109(a) provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 602(a)(1) provides:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.[1]

17 U.S.C. § 602(a)(2) provides:

> Importation into the United States or exportation from the United States, without the authority of the owner of copyright under this title, of copies or phonorecords, the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable, is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under sections 501 and 506.

17 U.S.C. § 602(b) provides in pertinent part:

> In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited.

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[1] In October 2008, shortly after the court of appeals issued the decision below, Congress amended § 602. Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b), 122 Stat. 4259 [hereinafter Pro-IP Act]. The importation right discussed by the court below, formerly codified at § 602(a), was renumbered as § 602(a)(1). All citations in this brief to "§ 602(a)" are to the prior version, now § 602(a)(1).

STATEMENT

Respondent Omega, S.A. ("Omega") seeks to prevent petitioner Costco Wholesale Corporation ("Costco") from reselling genuine watches originally sold by Omega to authorized foreign distributors. Omega affixed to the back of its watches a tiny symbol that it registered under the Copyright Act. The sole purpose was to use Title 17, the Copyright Act, to control the importation and sale of its watches in the United States by those who had purchased them through the authorized foreign distributors.

The Ninth Circuit upheld Omega's interpretation of the Copyright Act, holding that the Act grants U.S. copyright holders complete control over the resale, redistribution, and importation into the United States of any copyrighted works they manufacture abroad, *even after the holder sells those works to others*. The court found inapplicable the "first-sale doctrine," summarized by this Court a century ago: "[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose * * * a limitation at which the [copy] shall be sold at retail by future purchasers, with whom there is no privity of contract." *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 350 (1908).

In *Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998), this Court unanimously held that "the 'first sale' doctrine endorsed in [17 U.S.C.] § 109(a) is applicable to imported copies." Holding that this Court's opinion was "not 'clearly irreconcilable'" with pre-existing circuit law (Pet. App. 12a), the Ninth Circuit distinguished between copies manufactured in the United States, sold abroad, and subsequently re-imported (for which

the first-sale defense is available) and copies manufactured abroad and then imported into the United States (for which the first-sale defense is *not* available). This case is about whether the Copyright Act itself creates such a dichotomy. It quite sensibly does not.

A. The Copyright Act and *Quality King*

1. The Copyright Act grants copyright holders certain exclusive rights, among them the right to distribute – or to authorize others to distribute – copies of their work by sale or other transfer of ownership. *See* 17 U.S.C. § 106(3). That distribution right is extended in § 602(a), which provides, in pertinent part, that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106." *Id.* § 602(a).

The exclusive rights in § 106 are subject to a number of important limitations codified elsewhere in the Copyright Act, including the rights of fair use (*see* 17 U.S.C. § 107) and educational use (*see* 17 U.S.C. § 110). Also among those limitations is the first-sale doctrine. The doctrine exists in several bodies of intellectual-property law. *See, e.g.*, *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368 (1924) (trademark law); *United States* v. *Masonite Corp.*, 316 U.S. 265, 277-278 (1942) (the doctrine in patent law asks "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article"); *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008) (patent law).

In copyright law, the doctrine has been codified in 17 U.S.C. § 109(a), which provides (emphasis added):

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

The Copyright Act does not explicitly define "lawfully made under this title," although that phrase is used throughout the Act. *E.g.*, 17 U.S.C. §§ 110, 1001, 1006.

2. In *Quality King*, this Court began its analysis with the following observation (523 U.S. at 140):

> This is an unusual copyright case because L'anza [the copyright holder] does not claim that anyone has made unauthorized copies of its copyrighted labels. Instead, L'anza is primarily interested in protecting the integrity of its method of marketing the products to which the labels are affixed.

The Court proceeded to analyze the interaction of §§ 106(3), 602(a), and 109(a). Specifically, the Court addressed whether the first-sale doctrine limits the right to restrict importation in § 602(a). Following the "unambiguous[]" text of the statute, the Court held that "since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right 'under section 106,' and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both *domestic and foreign* owners" of lawfully made products that import and resell them in the United

States. *Quality King*, 523 U.S. at 145 (emphasis added). Once a lawful first sale has occurred, resales simply do not infringe the copyright owner's exclusive right to distribute. *Id.* at 143. "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Id.* at 152.

Among the issues the Court addressed in *Quality King* was whether applying the first-sale doctrine to goods imported into the United States would be an impermissible extraterritorial application of U.S. law. The Court held that it would not. "[T]he owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act * * *." 523 U.S. at 145 n.14.

The Court also considered whether applying the first-sale doctrine to lawfully made imported goods would render § 602(a) superfluous or otherwise conflict with its purpose. 523 U.S. at 145. The Court found "several flaws in this argument" (*id.* at 146), foremost among them a faulty "assumption that the coverage of [§ 602(a)] is coextensive with the coverage of § 109(a)" (*id.* at 148). Section 602(a) "is, in fact, broader because it encompasses copies that are not subject to the first sale doctrine." *Ibid.*

The Court identified three categories of copies covered by § 602(a) but not by § 109(a). The first is "piratical copies, of course, because such copies were not 'lawfully made.'" 523 U.S. at 146 n.17. The second is copies in the possession of a "nonowner such

as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." *Id.* at 147. Such copies fall outside the first-sale doctrine, which protects only "*the owner* of a particular copy or phonorecord lawfully made under this title." 17 U.S.C. § 109(a) (emphasis added). Finally, the Court noted that, because § 109(a)'s first-sale doctrine applies only to goods that are "lawfully made under this title," the importation right in § 602(a) would still apply to "copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." 523 U.S. at 147.

Justice Ginsburg joined the Court's opinion but filed a lone, one-paragraph concurrence. She "recognizfed] that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad." 523 U.S. at 154. She cited, without further comment, two treatises that suggested that allowing a first-sale defense in that situation might constitute extraterritorial application of the Act.

B. The Events Underlying This Lawsuit

Omega manufactures watches in Switzerland and sells them globally through a worldwide network of authorized distributors and retailers. *See* JA60. Except as to a single distributor in each of Paraguay, Israel, and Turkey, Omega has no written sales contracts with any of those distributors or retailers; nor does it impose any restrictions preventing retailers or their customers from reselling its watches to anyone else. JA118-122. Indeed, even Omega's few written contracts do not unconditionally restrict resale. JA70-71; JA76-78.

Costco is a membership warehouse club, known for selling genuine brand-name merchandise to its members at prices lower than its competitors. For

many years, Costco sold Omega watches that it had legally obtained through third parties who imported them into the United States. Among the Omega watches Costco sold was the Seamaster Model 2531.80. Costco sold the Seamaster for $1,299 (JA 61), more than one-third less than Omega's suggested retail price of $1,995. JA66. Costco's guarantee of member satisfaction, unlimited in time, far surpassed Omega's three-year limited warranty. JA130-131; JA133-138.

Though Omega never designated Costco as an "authorized" dealer of Omega watches, it knew for many years that its watches were sold at Costco and made no objection. JA110-111. Omega, however, received complaints from other retailers who felt threatened by Costco's superior price and customer service. JA45-46.[2] In response, in 2003, Omega began engraving a simple symbol on the back of the Seamaster Model 2531.80. JA116-117. Consisting principally of three Greek "Omega" symbols inside a circle, the "Omega Globe" measures less than one-half centimeter (approximately one-eighth of an inch) in diameter and is barely perceptible (JA132):

[2] This Court has encountered such behavior before, in the context of other legal issues. *E.g.*, *Monsanto Co.* v. *Spray-Rite Service Corp.*, 465 U.S. 752 (1984) (affirming jury verdict holding Monsanto liable under the antitrust laws for terminating a price-cutting distributor in response to complaints from competing distributors).

Omega registered the symbol with the United States Copyright Office (JA60) for the admitted purpose of invoking the Copyright Act to restrict the resale of its watches. JA46-52. Omega informed no outsiders of its plans, including its own authorized distributors, and Omega neither marketed nor advertised the symbol. JA112-115.

In 2004, unaware of the Omega Globe or its copyright (JA44), Costco purchased 117 Seamaster watches from an American supplier in New York, after they had been imported. JA54-58; JA61. Discovery later revealed that some of those watches were originally sold by Omega to authorized foreign distributors in Paraguay, who subsequently resold them into the regular stream of commerce. JA122-123.

C. Proceedings Below

After Costco's sale of 43 Seamaster watches in 2004, Omega filed suit alleging that Costco's acquisition and sale of the watches constituted copyright infringement under §§ 106(3) and 602(a). JA1; JA30-41. Costco moved for summary judgment, arguing that, under the first-sale doctrine, Omega's initial foreign sale of the watches provided a complete de-

fense. JA9. Omega filed a cross-motion. JA12. The district court ruled in favor of Costco, without explanation. Pet. App. 18a-19a.

The Ninth Circuit reversed, citing *BMG Music* v. *Perez*, 952 F.2d 318 (9th Cir. 1991). The panel in *BMG* had held that the phrase "lawfully made under this title" in § 109(a) "grant[s] first sale protection only to copies legally made and sold in the United States." 952 F.2d at 319 (following *CBS* v. *Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984)). The *BMG* court gave two rationales for that interpretation. First, "'[c]onstruing [§] 109(a) as superseding the prohibition on importation set forth in * * * § 602 would render § 602 virtually meaningless.'" *Ibid.* (quoting *Scorpio*, 569 F. Supp. at 49). Second, according to the Ninth Circuit, recognizing a first-sale defense as to goods manufactured abroad would impermissibly extend the Copyright Act extraterritorially. *Ibid.* (citing *Scorpio*, 569 F. Supp. at 49).

In the present case, the Ninth Circuit viewed its task, curiously, as determining whether this Court's decision in *Quality King* undermined *BMG*. Even though this Court had explicitly addressed – and rejected – both rationales for *BMG*, the Ninth Circuit purported to distinguish this Court's decision on two grounds. First, "the facts [of *Quality King*] involved only domestically manufactured copies." Pet. App. 10a. Justice Ginsburg had opined that, because the copies at issue in *Quality King* had originated in the United States, the Court's unanimous opinion did not "resolve cases in which the allegedly infringing imports were manufactured abroad." 523 U.S. at 154 (Ginsburg, J., concurring). The Ninth Circuit treated her concurrence as controlling because "[t]he majority opinion did not dispute this interpretation." Pet.

App. 15a. Second, the court of appeals stated that this Court never "discussed the scope of § 109(a) or defined what 'lawfully made under this title' means." Pet. App. 11a. Those two considerations, the lower court concluded, meant that *Quality King* was not "clearly irreconcilable" with prior circuit precedent limiting the first-sale doctrine to copies manufactured in the United States, thus barring Costco's reliance on § 109(a). *Ibid.*

SUMMARY OF ARGUMENT

The decision of the court of appeals conflicts with the language of 17 U.S.C. § 109(a), with its legislative history and purpose, and with this Court's straightforward interpretation of the Copyright Act in *Quality King*. The phrase "lawfully made under this title" is used throughout the Act, and makes perfect sense when given its literal meaning of *according to, or as defined by, this title*. Because Omega is the U.S. copyright holder, any copies that it makes are lawful according to 17 U.S.C. § 106(1), and so the first-sale doctrine applies to them here.

In contrast, the Ninth Circuit's holding that the phrase "lawfully made under this title" means *made in the United States* makes little sense and introduces into the Copyright Act numerous absurdities with which the lower court made no attempt to grapple. The Ninth Circuit's definition is inconsistent with how the same phrase is used elsewhere in the Act, lacks any basis in the Act's legislative history, and flows from circuit precedent contrary to this Court's unanimous decision in *Quality King*. That decision unambiguously held both that the first-sale doctrine applies to imported copies and that applying the doctrine is not an act of extraterritoriality.

This Court's observation in *Quality King* that the first-sale doctrine does not apply to "copies that were 'lawfully made' not under the * * * Copyright Act, but instead, under the law of some other country," 523 U.S. at 147, does not even mention the place of manufacture, let alone make it dispositive. The drafting history cited by the Court demonstrates that both § 602 and the Court's analysis of it speak to imported copies made by *unrelated foreign copyright holders*. Consistent with Costco's argument about the scope of § 109(a), importation of *those* kinds of copies may be prohibited under § 602, not because they are made abroad, but because they are made by entities that lack U.S. replication and distribution rights from a U.S. copyright holder according to the Copyright Act.

Though the distinction between goods made at home and those made abroad has no basis in the Copyright Act's first-sale doctrine, it would have severe consequences, which Congress could not have intended, for the U.S. economy. Manufacturers that sell globally will prefer to manufacture their goods abroad because of the increased control they will gain over subsequent sales and use of their products. Conversely, retailers and consumers will be hesitant to buy or sell such products for fear of unintended liability for infringement. Moreover, by exempting goods manufactured abroad from the first-sale doctrine, the Ninth Circuit's decision gives rise to a number of other absurd outcomes unintended by Congress, including copyright infringement liability for libraries that lend foreign books or movies.

The Ninth Circuit showed awareness of the potentially calamitous consequences of its reading of the phrase "lawfully made under this title" and narrowing of the first-sale doctrine. Rather than recon-

sidering whether its reading of the Copyright Act was correct, however, the court took shelter in a unique Ninth Circuit non-statutory "exception" to the rule enforced below, by which goods made abroad *are* granted first-sale treatment so long as their first sale into the United States is authorized by the copyright holder. However convenient that solution may be to some of the problems created by the lower court's reading of the Copyright Act, it has no basis in the text or history of the Act, conflicts with the Court's express holding in *Quality King*, and fails to enable retailers generally to differentiate between goods they can and cannot sell. This Court should not condone that exception, particularly when an alternative – and more logical – reading of the Copyright Act precludes any need for it in the first place.

ARGUMENT

This Court has long viewed with disfavor restraints on the alienation of property. *E.g.*, *Sexton* v. *Wheaton*, 21 U.S. (8 Wheat.) 229, 242 (1823). That aversion has guided development of the first-sale doctrine in patent, trademark, and copyright law. *E.g.*, *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251-252 (1942); *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368 (1924); *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 350-351 (1908); *see also* H.R. Rep. No. 987, 98th Cong., 2d Sess. 2 (1984) ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property.").

Congress has the power to limit the first-sale doctrine, but an intent to do so should not be lightly inferred when the consequence would be to curtail freedoms protected at common law and by a long-standing judicial doctrine. When the lower courts (and the United States) misconstrued § 602(a) to make the first-sale doctrine categorically inapplica-

ble to imported goods, this Court unanimously disagreed. "[T]he Solicitor General's cramped reading of the text of the statutes," the Court observed, "is at odds * * * with the necessarily broad reach of § 109(a)." *Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. at 152.

Now the lower court (and the United States) have misconstrued § 109(a) itself to make the first-sale doctrine categorically inapplicable to goods manufactured abroad, which represent a much greater share of U.S. commerce today than even when *Quality King* was decided. In doing so, they have given "lawfully made under this title" a meaning it plainly cannot bear in other parts of the Copyright Act. They have failed to give § 109(a) its "necessarily broad reach." They have misconstrued dicta in *Quality King*. They have ignored (or downplayed) the absurd consequences of their construction, consequences that it is inconceivable Congress intended. Finally, they have attempted to mitigate those consequences through an exception for certain goods *sold* in the United States that has no basis in the text of the Copyright Act.

Their arguments fall far short of sustaining the surprising proposition that Congress intended to impose a restraint on alienation, in derogation of the common law, through the use of oblique language. They fall equally short of sustaining the proposition that Congress intended to encourage outsourcing of manufacturing operations by giving greater rights to the holders of U.S. copyrights in foreign-made goods than to the holders of U.S. copyrights in U.S.-made goods.

I. THE NINTH CIRCUIT'S OPINION IS INCONSISTENT WITH THE TEXT, HISTORY, AND PURPOSE OF SECTION 109(a)

The first-sale doctrine, codified in 17 U.S.C. § 109(a), eliminates distribution and importation liability for owners of copies "lawfully made under this title." Only if those five words are synonymous with "lawfully made in the United States" could the Ninth Circuit's judgment be affirmed. Respondent has no explanation for why, if Congress meant "made in the United States," it did not just say so.

A. The Opinion Below Contradicts The Language Of The Copyright Act

The phrase "lawfully made under this title" is best understood in light of "the normal meaning of the language chosen by Congress." *Regents of Univ. of Cal.* v. *Pub. Employment Relations Bd.*, 485 U.S. 589, 595 (1988); *accord Bailey* v. *United States*, 516 U.S. 137, 145 (1995). In its normal usage, the phrase means "lawfully made" *according to, or as defined by,* "this title," *i.e.*, Title 17, the Copyright Act. *Accord* Brief for the United States as *Amicus Curiae* 30 n.18 (No. 96-1470) (U.S. *Quality King* Br.) ("The correct and more natural reading of the phrase 'lawfully made under this title' refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17.").

Here, because Omega is the U.S. copyright holder, any copies that it makes are necessarily lawful according to 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to

make or to authorize copies.[3] As a result, any copies made (or otherwise authorized) by Omega are "lawfully made under this title" and, therefore, subject to the first-sale doctrine regardless of where they are manufactured.[4]

The phrase "lawfully made under this title" is used two other times in Title 17. In both instances the straightforward, literal definition advanced by Costco makes perfect sense. In contrast, reading the phrase to mean "made and sold in the United States," Pet. App. 8a, is incompatible.[5]

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[3] There are other ways for authority to be granted under the Copyright Act, including by implication, *Disenos Artisticos e Industriales, S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996), and by operation of law. *See, e.g.*, 17 U.S.C. § 107 (fair use); *id.* § 115 (compulsory licensing).

[4] As the court stated in *Pearson Educ., Inc.* v. *Liu*, 656 F. Supp. 2d 407, 412 (S.D.N.Y. 2009) (internal citations omitted), appeal pending, No. 10-894 (2d Cir.):

> § 109(a) teaches that for first-sale purposes, the lawfulness of a particular copy or phonorecord should be judged by U.S. copyright law no matter where the copy or phonorecord was manufactured. In the normal run of cases, this condition will be satisfied if the copy was manufactured by the U.S. rightsholder; if the U.S. rightsholder authorized the copy to be manufactured; or if the manufacturer's activities would be privileged under U.S. concepts of fair use.

[5] "[I]dentical * * * phrases within the same statute should normally be given the same meaning." *Powerex Corp.* v. *Reliant Energy Servs., Inc.*, 551 U.S. 224, 232 (2007). Furthermore, "[a] provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme because the same terminology is used elsewhere in a context that makes its meaning clear, or because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law." *United Sav. Ass'n of Texas* v. *Timbers of Inwood For-*

In 17 U.S.C. § 110, for example, the Copyright Act exempts from liability copies that are "lawfully made under this title" for educational use. Under Costco's reading of that phrase, § 110 would permit teachers to use lawful copies of books, recordings, and other media, while barring their use of piratical copies, which are obviously not "lawfully made." Were the Ninth Circuit's contrary understanding correct, however, teachers would be liable for copyright infringement simply for exposing their students to genuine musical performances or instructional videos that happened to be made abroad, because the safe harbor created by § 110 would be inapplicable. That cannot be what Congress intended.

Equally nonsensical consequences result from applying the lower court's definition to requirements introduced by the Audio Home Recording Act ("AHRA"), 17 U.S.C. §§ 1001 *et seq.*[6] Section 1004(b) of the AHRA provides for a royalty payment "for each digital audio recording medium imported into and distributed in the United States, or manufactured and distributed in the United States." Section 1006(a) provides that those royalties shall be distributed to those whose musical works or sound recordings have been "embodied in a digital musical recording or an analog musical recording *lawfully made under this title* that has been distributed." 17 U.S.C. § 1006(a)(1)(A) (emphasis added).

[Footnote continued from previous page]

est Assocs., Ltd., 484 U.S. 365, 371 (1988) (internal citations omitted).

[6] The AHRA regulates the importation and distribution of audio recording devices and media and requires royalty payments to be paid to copyright owners by manufacturers, importers, or distributors of such products.

A proper reading of the operative phrase to mean *according to the Copyright Act* enables § 1004 and § 1006 to be read in harmony.[7] If, however, the phase "lawfully made under this title" referred only to copies manufactured in the United States, no royalty payments under § 1006 would be due on digital audio recording media manufactured abroad and imported into the United States, in direct contravention of § 1004(b), which explicitly provides for such payments. "[W]hen the statute's language is plain, the sole function of the courts – at least where the disposition required by the text is not absurd – is to enforce it according to its terms." *Lamie* v. *U.S. Trustee*, 540 U.S. 526, 534 (2004) (quotation marks and citation omitted). The Ninth Circuit's interpretation turns that canon on its head by simultaneously departing from the text and *creating* absurd results.

The AHRA also shows that when Congress intends to make the location of manufacturing determinative – and, as in § 1004(b) of the AHRA, it sometimes does – it does so in plain English.[8] The United

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[7] The Copyright Office, which helps administer the AHRA, takes the position that § 1006 entitles copyright owners to claim royalties for any work "embodied in a digital or analog musical recording lawfully made and distributed," whether or not that work was made in the United States. *See* http://www.copyright.gov/carp/dartfact.html.

[8] Provisions outside Title 17 also show this. *See, e.g.*, 15 U.S.C. § 1124 (banning the importation of goods that "bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States"); 19 U.S.C. § 1673c(*l*)(2) (providing for penalties in certain situations where a trading partner "no longer prevents the suppression or undercutting of domestic prices of merchandise manufactured in the United States"); 14 U.S.C. § 97(a)(1) ("the Coast Guard may not

States raised this point in *Quality King*. U.S. *Quality King* Br. 30 ("When * * * Congress wishes to make the location of manufacture relevant to Copyright Act protection, it does so expressly."). If Congress meant to limit § 109 to goods manufactured in the United States, it would have done so explicitly. *See Nken* v. *Holder*, 129 S. Ct. 1749, 1759 (2009) ("[W]here Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.") (quotation marks and citation omitted). *See also Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) (addressing the phrase "lawfully made under this title" in § 109(a) and noting that "[w]hen Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern").

A further example is the Copyright Act's now-expired "manufacturing provision," where Congress used the phrases "under this title" and "manufactured in the United States" in the very same sentence. 17 U.S.C. § 601 ("the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States* or Canada") (emphasis

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procure buoy chain that is not manufactured in the United States").

added). This sentence makes it clear that goods protected "under this title" can be manufactured in Canada, as well as in places other than the United States and Canada. Likewise, "under this title" cannot refer to location, because that would result in two different and inconsistent provisions regarding the location of manufacture of the goods, in the same sentence.

B. The Opinion Below Is Inconsistent With The Legislative History Of The First-Sale Doctrine

There is no historical basis for the Ninth Circuit's understanding of the first-sale doctrine as dependent on the place of manufacture. The legislative history of the codified first-sale doctrine confirms that "lawfully made under this title" simply means lawfully made according to the Copyright Act, and not made in the United States. *Accord* U.S. *Quality King* Br. 30 n.18 ("That reading is also consistent with the legislative history.").

In *Quality King*, this Court discussed *Bobbs-Merrill*, a case decided under the Copyright Act of 1891. There, as here, a manufacturer attempted to prevent retailers from reselling genuine copies, lawfully obtained in the stream of commerce, for prices less than the manufacturer preferred. 210 U.S. at 341-343. The Court rejected the manufacturer's claim that the retailers' activity violated the exclusive right to "vend" under § 1(a) of the 1891 Act (*id.* at 343), because the copyright owner had already "s[old] copies of the book in quantities and at a price satisfactory to it" when it made its first sale into the stream of commerce (*id.* at 351).

After *Bobbs-Merrill*, Congress codified the first-sale doctrine. Indeed, the doctrine apparently takes

its name from the legislative history of the 1909 Copyright Act, where legislators expressed the opinion that "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale." H.R. Rep. No. 2222, 60th Cong., 2d Sess. 19 (1909).

The codification provided that "nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of *any copy* of a copyrighted work the possession of which has been *lawfully obtained*." Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660 (codifying and amending Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084) (emphasis added). The statute on its face did not limit the first-sale doctrine to goods made in the United States, and the rationale that it would be "unwise" to perpetuate the "proprietor['s]" control shows that no such limitation would have accorded with the legislators' intent. *See Quality King*, 523 U.S. at 152 ("There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope."); *see also Keene Corp.* v. *United States*, 508 U.S. 200, 210 (1993) (predecessor provisions can "shed some light" on current ones); *cf.* Felix Frankfurter, *Some Reflections on the Reading of Statutes*, 47 COLUM. L. REV. 527, 537 (1947) (when a legal concept "is obviously transplanted from another legal source, whether the common law or other legislation, it brings the old soil with it").

When Congress amended the Copyright Act in 1976, a committee explained that "Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to

whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79 (1976) [hereinafter "House Report"]. Thus, "[a]s section 109 makes clear, * * * the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it," *id.* at 62, and "the outright sale of *an authorized copy* * * * frees it from any copyright control over its resale price or other conditions of its future disposition." *Id.* at 79 (emphasis added). As this Court recognized in *Quality King*, 523 U.S. at 142, § 109(a) sets a "comparable limitation" to that expressed in *Bobbs-Merrill*.

Though § 109(a) phrased the first-sale doctrine using the words "lawfully made under this title," that language was not introduced to refer to the place of manufacturing, but to whether a particular copy was "made under the authority of the copyright owner." Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision, Part 5: 1964 Revision Bill with Discussions and Comments*, at 67 (Comm. Print 1965). Congress ultimately chose "lawfully made under this title" to *broaden* the doctrine beyond actual consent of the copyright owner – that is, to cover copies that were "not necessarily [made] with the copyright owner's authorization," among them, copies "legally made under the compulsory licensing provisions of section 115." House Report, *supra*, at 79.[9]

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[9] Section 115 provides that, once a copyright holder records a composition and distributes it to the public, others are also entitled to record and distribute copies of that composition without the consent of the holder, subject to the payment of statutory royalties and other minimal requirements.

Of course, that legislative history makes sense if the phrase "lawfully made under this title" refers to the surrounding provisions of Title 17, as Costco argues; for purposes of the first-sale doctrine, there is no reason to treat copies authorized by a copyright owner differently than those made under a compulsory license. Yet the Ninth Circuit's interpretation would result in such different treatment; a rerecording of a U.S. copyrighted song made abroad might not be subject to the first-sale rule, *even if the artist making the rerecording paid for a compulsory license and abided by the other requirements of § 115.* That interpretation cannot be reconciled with the legislative history of the first-sale doctrine.

C. The Opinion Below Is At Odds With The Purpose Of The First-Sale Doctrine

The lower court's interpretation of "lawfully made under this title" also conflicts with the purposes of both the first-sale doctrine and the distribution right it is meant to limit.

The distribution right protected by § 106(3) "accords the copyright owner the 'right to control the *first* public distribution' of his work, echo[ing] the common law's concern that the author or copyright owner retain control throughout th[e] critical stage" before a good goes to market. *Harper & Row Publishers, Inc.* v. *Nation Enters.*, 471 U.S. 539, 555 (1985) (quoting House Report, *supra*, at 62) (emphasis added). *See also id.* at 552 (quoting House Report, *supra*, at 62) (observing that § 106(3) is meant to ensure that "'the copyright owner would have the right to control the *first* public distribution of an authorized copy * * * of his work'") (emphasis added); *Pearson Educ., Inc.* v. *Liu*, 656 F. Supp. 2d 407, 409 (S.D.N.Y. 2009) (Section 106(3) "primarily protects a

copyright owner's ability to control the terms on which her work *enters* the market") (emphasis added), appeal pending, No. 10-894 (2d Cir.).

Applying the first-sale doctrine here does not abrogate a copyright holder's right to bring his work to market on terms of his own choosing; only after that has occurred, when someone else becomes the "owner" of a "*particular* copy or phonorecord," does the doctrine takes effect. 17 U.S.C. § 109(a) (emphasis added). The decision where and when to "exhaust" the distribution right thus remains the copyright holder's alone.

Conversely, the Act does not empower that copyright holder to divide markets, set resale prices, or otherwise use the Act to choose when or if or on what terms a good can pass between subsequent purchasers. *See Bauer & Cie.* v. *O'Donnell*, 229 U.S. 1, 17 (1913) ("[T]he right to *vend* secured in the patent statute is not distinguishable from the right of *vending* given in the copyright act. In both instances it was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold."). As Justice Breyer noted at oral argument in *Quality King*, that kind of control is subject to review under antitrust laws: "Sometimes you can do it, sometimes you can't." *Quality King* Oral Argument Tr. 30.[10]

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[10] At the time Congress added "lawfully made under this title" to the Copyright Act, territorial allocation and resale price maintenance were considered *per se* illegal. *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967); *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911). Today, both are subject to antitrust's rule of reason. *Leegin Creative Leather Products, Inc.* v. *PSKS, Inc.*, 551 U.S. 877 (2007); *Con-*

For "vertically imposed territorial restrictions" to be affirmatively enforceable through copyright law rather than subject to control and potential prohibition under antitrust law, he suggested in questioning the respondent's counsel, "you [would] have to have a fairly clear expression of congressional intent." *Id.* at 30-31. No such clear expression exists here.

Omega suggests that Congress at some point became solicitous of copyright holders' desires to allocate markets and use copyright law to keep resale prices high. Thus, Omega complains that applying the first-sale doctrine here "will undercut the value of U.S. distribution rights." Brief in Opp. 11.

That objection has nothing to do with the place of manufacture, and it resurrects reasoning the Ninth Circuit used in the very opinion this Court *reversed* in *Quality King*. *L'anza Research Int'l, Inc.* v. *Quality King Distribs., Inc.*, 98 F.3d 1109, 1117 (9th Cir. 1996), *rev'd*, 523 U.S. 135 (1998). Furthermore, it supposes – wrongly – that Congress was concerned with such matters when it introduced the phrase "lawfully made under this title" into § 109(a) in 1976. There is no evidence of any such congressional concern. *Cf. Bauer & Cie.*, 229 U.S. at 13 (an author's interest in "devices intended to keep up the market and prevent the cutting of prices * * * * could have had little weight in framing the [patent and copyright] acts").[11] Indeed, it would be schizophrenic for

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tinental T.V., Inc. v. *GTE Sylvania Inc.*, 433 U.S. 36 (1977). Neither is *per se* lawful under antitrust law.

[11] *See also Keeler* v. *Standard Folding-Bed Co.*, 157 U.S. 659, 666-667 (1895) ("[O]ne who buys patented articles of manufacture from one authorized to sell them becomes pos-

Congress to subject territorial allocation and resale price maintenance to scrutiny under the antitrust laws yet provide affirmative protection for those same activities under copyright law without any inquiry into their effect on consumers.

Whereas § 106(3) is meant to protect a good *before* its entrance into the market, "[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152. Thus, once a copyright owner has taken his product to market, the first-sale doctrine marks the moment when "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation." 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A], at 8-155 (2008).

As a district court recently and correctly observed, "the common law policy against restraints on trade and alienation is not limited by the place a chattel is manufactured." *Pearson*, 656 F. Supp. 2d at 413. Rather, that ancient policy simply provided that, "'[i]f a man be possessed of a horse or any other chattel, real or personal, and give his whole interest, or property therein, upon condition that the donee or

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sessed of an absolute property in such articles, unrestricted in time or place. * * * The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.").

vendee shall not alien the same, the same is void, because his whole interest and property is out of him, so as he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man." 1 COKE ON LITTLETON bk. 3, ch. 5, § 360, at 223 (1628). Section 109(a), codifying *Bobbs-Merrill*, reflects Congress's intent to give effect to, not abrogate, that common law policy in the copyright realm. "[W]here a common-law principle is well established, * * * courts may take it as given that Congress has legislated with an expectation that the principle will apply except when a statutory purpose to the contrary is evident." *Astoria Federal Sav. & Loan Ass'n* v. *Solimino*, 501 U.S. 104, 108 (1991) (internal quotation marks and citation omitted); *accord United States* v. *Texas*, 507 U.S. 529, 534 (1993). No congressional purpose to abrogate the common law, but to do so only in the case of foreign-made goods, is evident in the text, history, or policy of § 109(a).

II. THE NINTH CIRCUIT'S OPINION IS INCONSISTENT WITH *QUALITY KING*

The decision below cannot be reconciled with principles articulated in *Quality King*. Indeed, in *Quality King*, this Court squarely rejected both theories on which the Ninth Circuit's opinion claims to rest: (i) that applying the first-sale doctrine here would amount to an extraterritorial application of U.S. law, and (ii) that applying the doctrine would render § 602(a) superfluous. Although the Court did introduce a distinction between goods "lawfully made under this title" and goods "'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country" (*Quality King*, 523 U.S. at 147), that distinction only serves to streng-

then Costco's reading of the first-sale doctrine. As the history cited by the Court confirms, both § 602(a) and the Court's discussion of it address goods made by *unrelated* foreign copyright holders who lack authority to make goods according to the Copyright Act.

A. The First-Sale Doctrine Is Not An Extraterritorial Application Of U.S. Law

Following *BMG*, the lower court held that recognizing a first-sale defense as to goods manufactured abroad "would require an invalid extraterritorial application of the Copyright Act." Pet. App. 11a (citing *BMG*, 952 F.2d at 319). But respondent in *Quality King* made the same argument,[12] which the Court summarily rejected in a two-sentence footnote (523 U.S. at 145 n.14):

> Despite L'anza's contention to the contrary, * * * the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act any more than § 602(a)'s "acquired abroad" language does.

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[12] Respondent there argued that "[a] distribution of copyrighted goods outside the United States is not an exercise of the Section 106(3) right, but rather an exercise of rights conferred by foreign copyright law," and therefore, "[b]ecause a distribution of copyrighted works outside the United States is not an exercise of the Section 106(3) United States distribution right, the Section 106(3) right and Section 602(a) right cannot be extinguished by [a] distribution outside the United States." Brief for Respondent 27, *Quality King*, 523 U.S. 135 (1998) (No. 96-1470).

When it is said that the Copyright Act does not have extraterritorial effect, this merely means that "*infringing actions* that take place entirely outside the United States are not actionable [under the Copyright Act]." *Subafilms, Ltd.* v. *MGM-Pathe Communications Co.*, 24 F.3d 1088, 1091 (9th Cir. 1994) (emphasis added) (quotation marks and citation omitted). *See also EEOC* v. *Arabian Am. Oil Co.*, 499 U.S. 244, 248-249 (1991) (*Aramco*) (refusing to apply Title VII of the Civil Rights Act of 1964 to a claim of harassment and wrongful discharge based on conduct occurring entirely in Saudi Arabia); *Morrison* v. *National Australia Bank, Ltd.*, No. 08-1191, slip op. 24 (June 24, 2010) (refusing to recognize a cause of action under federal securities law antifraud positions unless there was a fraud "in connection with the purchase or sale of a security listed on an American stock exchange, [or] the purchase or sale of any other security in the United States"). The presumption against extraterritoriality is meant "to protect against unintended clashes between our laws and those of other nations which could result in international discord," *Aramco*, 499 U.S. at 248, by "restricting federal statutes from reaching *conduct* beyond U.S. borders," *Small* v. *United States*, 544 U.S. 385, 400 (2005) (Thomas, J., dissenting) (emphasis altered), unless Congress clearly states otherwise. *Accord Morrison*, slip op. 20-21.

There is no attempted extraterritorial enforcement here. *Omega*, not Costco, seeks to use the Act to prevent or punish another party's actions, contending that Costco's distribution of its watches *in the United States* constitutes copyright infringement. Costco seeks only to assert its § 109(a) "entitle[ment] * * * to sell or otherwise dispose of" previously sold copies as a defense in a copyright infringement ac-

tion, just as the petitioner in *Quality King* was entitled to do.

The Ninth Circuit attempted to distinguish *Quality King* by concluding that in an export-and-reimport situation "the statute merely acknowledges the occurrence of a foreign event as a relevant fact," whereas in the case of a good manufactured abroad "application [of the statute] would go much further." Pet. App. 13a. But that purported distinction makes no sense: Just as applying the first-sale doctrine to L'anza's exported-and-reimported goods merely acknowledged the occurrence of a foreign event – "the first sale * * * abroad" (523 U.S. at 145 n.14) – as a relevant fact, applying the first-sale doctrine here merely acknowledges the occurrence of another foreign event – manufacture abroad – as a relevant fact.[13]

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[13] The first-sale doctrine is hardly the only provision of the Copyright Act that treats the making of a good abroad as a relevant event. For example, courts have construed 17 U.S.C. § 104(b) to grant copyright protection to works first manufactured abroad for a term that, under 17 U.S.C. § 302, begins at the time of creation abroad. *See, e.g., Hasbro Bradley, Inc.* v. *Sparkle Toys, Inc.*, 780 F.2d 189, 192-193 (2d Cir. 1985) ("Since the toys were authored by a Japanese national and first 'published' (i.e. sold) in Japan, they enjoyed copyright protection under United States law from the moment they were created, *see* § 302(a), by virtue of both § 104(b) of the Act and Article II(1) of the [Universal Copyright Convention, Sept. 6, 1952, [1955] 6 U.S.T. 2731]."). Such results simply embody the principle of "national treatment," which ensures that authors of works made abroad enjoy "the same rights as are enjoyed by nationals of the country where protection is claimed." 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHTS § 18.3, at 18:17 (2005). *See also* 17 U.S.C. §§ 401(a), 402(a) (providing for the placing of copyright notices on works "published in the United States and elsewhere").

The Ninth Circuit sought to evade *Quality King* with the distinction that applying the first-sale doctrine to foreign-made goods "would mean that a copyright owner's foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application." Pet. App. 13a. Whatever extraterritoriality concerns might be raised if this were a lawsuit challenging the lawfulness of Omega's foreign manufacturing and a defense were based on the rights of reproduction accorded by 17 U.S.C. § 106(1), this is not such a lawsuit. This suit, instead, is about the lawfulness of U.S. sales objected to by the U.S. copyright holder. The question whether the manufacturer was the U.S. copyright holder (or otherwise had authority that U.S. law recognizes) became relevant because § 109(a) made it relevant. That is not extraterritoriality.

Nor does applying the first-sale doctrine to *distribution* of the watches requires the application of any provision of U.S. law extraterritorially. *Distribution* of copyrighted goods is governed not by § 106(1) but by § 106(3). And the codified first-sale doctrine applies, by its terms, "[n]otwithstanding the provisions of section 106(3)." 17 U.S.C. § 109(a). For that reason, this Court held in *Quality King* that the "literal text of" the statutory ban on unauthorized imports "is simply inapplicable to both domestic and foreign owners of L'anza's products who desire to import them and resell them in the United States." 523 U.S. at 145.

Tellingly, the United States agrees that "the court of appeals * * * overstated the matter in suggesting that application of Section 109(a) to the foreign-made copies at issue here would actually constitute an impermissible extraterritorial application of

the Copyright Act." U.S. Inv. Br. 10.[14] Nevertheless, the United States opaquely claims that the presumption against extraterritoriality somehow "informs the proper construction of the phrase 'lawfully made under this title.'" *Ibid.* Whatever that means, it finds no expression in *Quality King*.

The lower court's "logic" misconceives the purpose and application of the rule against extraterritoriality. As the U.S. District Court for the Northern District of California recently emphasized when confronted with a similar argument in the context of the foreign sale of a product with a U.S. patent:

> [T]he concept of "extraterritorial effect" refers to *imposing liability* under United States law for conduct occurring outside the United States. Holding that exhaustion is triggered by the authorized foreign sale of a patented product does not impose liability of this sort, and thus does not amount to giving extraterritorial effect to the patent law.

LG Elecs., Inc. v. *Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009) (emphasis added and internal citations omitted).

Section 109(a) does nothing more than require a *U.S. court*, evaluating an affirmative defense in an action brought by a *U.S. copyright holder* alleging infringement of *U.S. copyright*, to determine whether the good bearing that copyright was "lawfully made" as that concept is understood in the Copyright Act.

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[14] "U.S. Inv. Br." refers to the brief filed on March 17, 2010, in response to this Court's invitation to the Solicitor General to express the views of the United States. If the United States files an amicus brief on the merits, we will cite it as "U.S. Br."

Accordingly, the presumption against extraterritoriality is not implicated in this case.

B. The Ninth Circuit Misconstrued This Court's Discussion Of Copies Made Under A Foreign Copyright

The lower court, again following *BMG* rather than *Quality King*, also asserted that permitting recourse to § 109(a) in importation cases "would render § 602[(a)] virtually meaningless." Pet. App. 8a (internal quotation marks omitted). But that theory was squarely rejected in *Quality King* because of "several flaws." 523 U.S. at 146. Indeed, the Court identified three categories of copies whose importation is prohibited under § 602(a) because they are not subject to the first-sale doctrine, among them "piratical" copies and copies in the possession of a nonowner. *Id.* at 146-147.[15]

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[15] The United States argues that permitting the first-sale doctrine to apply to lawful goods made abroad by a U.S. copyright holder "would disserve Congress's intent to extend the importation ban beyond piratical copies." U.S. Inv. Br. 11 n.4. That argument ignores the fact that "the first sale doctrine * * * would [still] not provide a defense to a § 602(a) action against any nonowner" of a lawfully made non-piratical good, 523 U.S. at 146-147, *even if* such goods include those made abroad by a U.S. copyright holder. Though the United States asserts, without substantiation, that this would make "the category of copies whose importation could be blocked under Section 602(a)(1) * * * extremely small," U.S. Inv. Br. 14, the historical rationale for Section 602(a) was to solve just that problem. *See* Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 445, 461 n.107 (1997) ("These situations arose when parties abroad, who had not acquired a copy via a first sale, improperly transferred possession of their copies to others who would then reimport. These were substantial copy-

The Court also noted that "§ 602(a) applies to a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Quality King*, 523 U.S. at 147. The Court did not indicate that this category was a large one; it "mention[ed] one example of such a comment in 1961 [in the drafting history] simply to demonstrate that the category is not a merely hypothetical one." *Ibid.* Nevertheless, in justifying the decision below, the Ninth Circuit, Omega, and the United States all cite the Court's discussion of this species of copies as if *all* copies made abroad must have been lawfully made *only* under the law of another country and necessarily *not* under Title 17. Pet. App. 14a-15a; Br. in Opp. 11-12, 18-20; U.S. Inv. Br. 9-10, 14-15. From that premise, they conclude that the first-sale doctrine *categorically* does not apply to goods made outside the United States. The Court neither said nor meant any such thing.

1. The Court Did Not Say That A Copy Made Under Foreign Law Cannot At The Same Time Conform To The Copyright Act's Requirements

Goods manufactured abroad and lawfully made under foreign law can, at the same time, conform with the requirements of the United States Copyright Act and thus be "lawfully made under" Title 17. For example, the act of printing a book in France may require authorization under French law to make

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right problems before the 1976 Act for which § 602(a) [was] the solution.").

copies in France. But, if the act of making those copies in France is carried out by the U.S. copyright holder, then those copies were made in accordance with standards enumerated in the Copyright Act (which gives the U.S. copyright owner the right to make copies) and, therefore, "lawfully made under this title [17]" as well.[16] In other words, the concepts of being lawfully made "under the law of some other country" and being "lawfully made under this title" are not mutually exclusive. It is possible to be both, one, or neither.[17]

Indeed, the petitioner in *Quality King* contrasted "a copy made by, or under the authorization of, the United States copyright holder, [which] would doubtless be 'lawfully made under this title' *regardless of whether it is made in this country or abroad*," with "a lawful copy made by an *unrelated entity solely pursuant to a foreign copyright*, without the express or implicit authorization of the U.S. copyright owner, [which] is arguably not made 'under this title' within the meaning of Section 109(a)." Brief for Petition-

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[16] This is not to say that both laws govern the creation of copies abroad. In this example, even though only the law of France (the place of manufacturing) governs production in France, a copy made in France can, at the same time, accord with requirements set out in the intellectual-property laws of the United States (and indeed of many countries). This is not an unusual scenario in the modern, global economy.

[17] In addition to the example this Court gave in *Quality King*, discussed immediately below, see other examples given in *Pearson*, 656 F. Supp. 2d at 415 ("there clearly exist circumstances where a copy is *not* lawfully manufactured under the standards of Title 17 but is lawfully manufactured under the standards of some other source of law[;] [a] copy, for example, might be manufactured pursuant to a compulsory license required by foreign law").

er 27-28 (No. 96-1470) (emphasis added). The petitioner conceded that in the latter "circumstances, *and unlike the facts of the present case*, the imported copies would not have been made as a result of any authority 'under this title,'" and therefore would not be subject to the first-sale doctrine. *Id.* at 28 (emphasis added). The petitioner made the point again at oral argument. *Quality King* Oral Argument Tr. 12-14.[18]

Nothing in the Court's opinion indicates a belief that the category of goods lawfully made under the law of a foreign country *and not* lawfully made under the United States Copyright Act was any broader than petitioner's example of copies made by a foreign party without authorization to do so under the Copyright Act. Rather, in discussing an example from the drafting history, the Court wrote (*Quality King*, 523 U.S. at 148):

> If the author of [a] work gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an ac-

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[18] Only Justice Souter asked any questions about the place of manufacturing at oral argument, *Quality King* Oral Argument Tr. 15 ("But if the contract is silent, your answer is the geography of manufacture is irrelevant."), and the Court's opinion makes no reference to it.

tion under § 106(3), if there was a distribution of the copies).

The court of appeals read "this illustration [to] suggest[] that 'lawfully made under this title' refers *exclusively* to copies of U.S.-copyrighted works that are *made* domestically." Pet. App. 15a (emphasis added). But the illustration does no such thing. It speaks only about rights granted and the grantor of those rights. And it sensibly presumes that a copy made by the recipient of British rights cannot be "lawfully made under this title" *not* because of where the work is made, but because, *according to the Copyright Act*, someone who possesses *only* British rights has no authority to make a lawful U.S. copy. That treatment conforms perfectly with a definition of "lawfully made under this title" that turns on whether the manufacturing entity possesses rights *according to Title 17*.

The example obviously does *not* speak about the place of manufacturing.[19] It does not suggest that works made by the holder of British distribution rights would be subject to the first-sale doctrine if those works were printed in the United States. Nor does it say that those books made by the publisher of the United States edition would be "lawfully made under this title" only if they are printed in the United States. Were that true, then *none* of the approxi-

[19] The Ninth Circuit acknowledged that the Court did not say the hypothetical British editions were manufactured outside the United States, and that one would have to make an *assumption* about the Court's unstated meaning to construe the quoted dictum as supporting a construction of "lawfully made under this title" as turning on place of manufacture. Pet. App. 15a & n.6. But the Ninth Circuit regarded itself as constrained to follow its own *BMG* precedent unless *Quality King* was *clearly* irreconcilable with that precedent. This Court, of course, is under no such constraint.

mately *1 billion* printed materials imported into the United States each year – nearly a third of all books purchased in the United States – would be subject to the first-sale doctrine. *See* Harmonized Tariff Schedule of the United States § 4901 (2005 imports); BOOK INDUSTRY STUDY GROUP, INC., BOOK INDUSTRY TRENDS 2006 at 13 (2005 total consumption).

That is quite unlikely. As the Second Circuit (through Judge Friendly) noted some 47 years ago, "it would seem exceedingly odd that copyright protection should turn on which party has furnished the physical stuff to which the copyrighted conception is affixed – with the protection lost if the author does not assume a role for which others are usually better suited." *Platt & Munk Co.* v. *Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963). It would be exceedingly odd too if increased copyright protection were *gained* if the author of the U.S. edition cited in the Court's illustration merely (and sensibly) outsourced production of the books to China. Yet reading the Court's illustration to turn on place of manufacture – a factor the Court did *not* mention – leads to exactly that odd result. It is far more sensible to assume that the Court meant what it said when it spoke of "rights" in separate U.S. and British editions and said nothing about place of manufacture.

2. The Court Was Referring To Imported Copies Made Abroad By Unrelated Foreign Copyright Holders, Not Copies Made By The U.S. Copyright Holder Itself

The Court indicated that its market-allocation example was drawn from drafting-committee discussions about concerns raised by the book and record industries. *See Quality King*, 523 U.S. at 148 n.20. Those historical materials reflect concerns about *who* was manufacturing, not *where*. Specifically, the ma-

terials point to concerns that U.S. copyright holders faced competition not from goods they themselves made and sold abroad, but from imported copies made and sold abroad *by unrelated foreign copyright holders* without express or implicit authorization to do so under the Copyright Act. *See also Quality King* Oral Argument Tr. 13-14 (colloquy between Justice Stevens and counsel for petitioner, in which neither mentions place of manufacture but Justice Stevens brings up situation in which "[t]he U.S. copyright holder could be a licensee of the author, and you have a different copyright holder who's also a licensee in Britain"). Such copies would not be lawfully made under U.S. copyright law whether or not lawfully made under other countries' laws.

Concerns about competition from unrelated foreign copyright holders were raised throughout the lengthy process that preceded the 1976 Copyright Act. For example, a 1964 submission by the American Book Publisher's Council reflected the concern underlying the Court's example in *Quality King*: "At present when a British publisher contracts with an American publisher to give him exclusive American rights to a work, the American publisher has no effective legal means of redress against sales into the United States by a third party, *e.g.*, a British wholesaler." Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law*, at 260 (Comm. Print 1964) [hereinafter 1964 Copyright Revision]. *See also id.* at 209-210 (statement of Mr. Manges) (addressing concerns of U.S. publishers regarding books printed abroad by foreign publishers); *id.* at 210 (statement of Mr. Karp) (questioning if infringement occurs if "some American importer buys from a Ger-

man jobber, who legitimately bought copies *from the German publisher*, who had the authority to make and sell them," and then the "American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies") (emphasis added).

The General Counsel of the Copyright Office – which prepared the preliminary drafts of the 1976 Act – took the position that the "whole answer [to the question whether the importation of good made under an arrangement conferring limited geographic rights was infringing] depends on whether the distribution that would take place in the United States would itself constitute an infringement of copyright" (1964 Copyright Revision at 211 (statement of Mr. Goldman)), a position the Copyright Office took throughout the review process. That view, like Costco's here, turned on whether the goods made abroad were made by someone with authority to do so under the Copyright Act; if they were, then their importation would not be infringing.

The market-allocation example the Court gave in *Quality King* thus can be traced directly to legislative history referring to U.S. copyright holders who never had the opportunity to control the first publication of their works because they were competing with copies *made only in accordance with a foreign copyright*. In contrast, those materials nowhere suggest that the first-sale doctrine should be limited so that a U.S. copyright holder could exercise control over goods *that copyright holder* had already taken to market abroad.

III. APPLYING THE FIRST-SALE DOCTRINE HERE IS NOT IN TENSION WITH THE IMPORTATION PROVISIONS CODIFIED IN SECTION 602

In another attempt to demonstrate that the first-sale doctrine does not apply to goods manufactured abroad, both Omega and the United States raised in opposition to Costco's petition for certiorari an argument that was not made below. Br. in Opp. 15-16; U.S. Inv. Br. 11-13. They cited language from § 602(b) (which grants U.S. Customs and Border Protection ("Customs") the authority to stop the importation of piratical copies), as well as the recently enacted § 602(a)(2) (which was added in 2008 to provide a private right of action and criminal penalties against piratical imports and exports). Both of those sections refer to goods whose making "would have constituted an infringement of copyright if this title had been applicable."[20] That "counterfactual formulation" (U.S. Inv. Br. 12), Omega and the United States contend, demonstrates Congress's recognition that the Copyright Act does not apply abroad and that special language must be used when Congress wishes to refer to foreign manufacture.

But Costco does not argue that the Copyright Act applies abroad. *Supra* pp. 28-33. It simply contends (consistent with footnote 14 of *Quality King*) that acts occurring abroad may be relevant to determin-

[20] Section 602(b) provides in pertinent part: "In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited." Section 602(a)(2) forbids unauthorized importation or exportation "of copies or phonorecords, the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable."

ing whether a first sale has occurred with the authority of the copyright owner. Because that evaluation occurs only when a lawsuit has been brought (*i.e.*, when the good is already inside the United States), there is no application of the Copyright Act *outside* the United States.

The cited language from §§ 602(b) and 602(a)(2) does not show that the first-sale doctrine depends on place of manufacture. Omega suggests that the provisions distinguish between goods manufactured domestically and those manufactured abroad, but the actual distinction is between genuine goods and goods that would be considered piratical under U.S. law. By prohibiting the importation of goods that "would have constituted an infringement of copyright if this title had been applicable," Congress merely recognized that goods considered piratical or counterfeit under U.S. law may well be considered lawful under the local law of a particular foreign country. By prohibiting the importation of such goods, Congress closed a potential loophole that would have otherwise allowed the importation of piratical, foreign-made goods so long as the country of origin did not consider them to be "infringements."

The drafting history of § 602(b) confirms that Congress divided the category of piratical goods into two groups – those made in countries that recognized the rights of U.S. copyright holders and those made in countries that did not. Commenting on an earlier version of language that became § 602(b), one committee member noted his concern "that the present language, 'if this title had been applicable,' somewhat obscures in general terms an issue which is rather specific." 1964 Copyright Revision at 207 (statement of Mr. Goldberg). As others agreed, that *specific* issue was importation of goods whose making *would* have "constituted an infringement of copyright

had such making taken place in the United States." *Ibid.*[21]

Omega argues that the language "if this title had been applicable" in § 602(b) demonstrates an intent to refer to conduct to which the Copyright Act does not apply because it takes place overseas. Omega contrasts that language with § 602(b)'s reference to copies "lawfully made," for which Customs has no authority to prevent importation. The distinction actually cuts the other way. Section 602(b) expressly contemplates that it is *not* prohibited to import goods of the exact character at issue in this case – goods made by the U.S. copyright holder abroad – because making those goods would *not* have "constituted an infringement of copyright had such making taken place in the United States." 1964 Copyright Revision at 207 (statement of Mr. Goldberg). Congress's decision to *permit* importation of goods made by a U.S. copyright holder abroad cannot be transmuted into a decision to *forbid* application of the first-sale doctrine to such goods.

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[21] *See also* 1964 Copyright Revision at 203-204 (statement of Mr. Goldman) ("the importation of copies for distribution in the United States *in contravention of the rights of the copyright holder in the United States*, would be an infringement of copyright") (emphasis added), *id.* at 206 (statement of Mr. Goldman) ("If there is no one whose rights are being infringed by distribution in the United States, there is nothing that this section applies to."). *Cf. id.* at 203 (proposed Section 44 addresses "importation for distribution in the United States of foreign copies that were made under proper authority but that, if sold in the United States, *would be sold in contravention of the rights of the copyright owner* who holds the exclusive right to sell copies in the United States") (emphasis added). Notably, each used the words "in the United States," which Congress could have added in § 109(a) if that were the concept it had intended to express.

If it bears on the matter at all, § 602(a)(2) only confirms that the first-sale doctrine applies to goods made abroad by the U.S. copyright holder. The legislative history confirms that, as with the earlier subsections, Congress's focus was on rights, not location. Section 602(a)(2) was added in 2008 as part of the Pro-IP Act because what was § 602(a) – and became § 602(a)(1) – "only addresse[d] infringing *importations*." The new subsection simply "specif[ies] that *exportation* of infringing copies is also prohibited and considered an infringement of the exclusive right to distribute copies or phonorecords to the public." H.R. Rep. No. 617, 110th Cong., 2d Sess. 44 (2008) (emphasis added). Legislators explicitly noted that the new section was "not intended to alter, amend, or otherwise change current law, regulation, or practice relating to the manufacture, importation, exportation, or distribution of genuine products, *made under authority of the United States intellectual property rights holder or its designee*." *Ibid.* (emphasis added). The hallmark of lawfulness is whether a good is made by someone with rights to do so according to the Copyright Act, and not where a good is made.

Nor is it true that, because § 602(b) and § 602(a)(2) use the phrase "if this title had been applicable" in the same sentence as the word "making," "lawfully made under this title" must mean the same thing as "lawfully made in a place where this title is applicable." The use of the word "making" merely reflects that the infringing activity that triggers § 602 (in contrast to, for example, § 106(3)) is *copying*, not distribution or any other activity. Moreover, although a legislator perhaps *could* use the phrases "where this title is applicable" and "under this title" synonymously, there is not a scintilla of support for the proposition that anyone involved in drafting the Copyright Act in 1976 – or even § 602(a)(2) in 2008 –

did use those phrases synonymously.[22] Quite the contrary, there are numerous places in the Copyright Act where Congress used the phrase "under this title" in a manner that cannot possibly have meant "where this title is applicable." *See supra* pp. 17-20 (discussing 17 U.S.C. § 110, § 1006(a)(1)(A), and former § 601). Other than the misconstruction of § 109 directly at issue in this case, there is not one example of a situation in which "under this title" could even plausibly mean "where this title is applicable," let alone where "lawfully made under this title" could mean "lawfully made in the United States."

Finally, any attempt to determine which goods are covered in one subsection by construing the others fails because the three subsections cover different, but overlapping, categories of goods and establish different remedies. Section 602(a)(1) governs all "work[s] that have been acquired outside the United States" (*i.e.*, whether genuine or piratical), subject of course to the first-sale doctrine. It provides for civil remedies under 17 U.S.C. § 501. Section 602(b) covers those goods that are "lawfully made" as well as those whose making "would have constituted an infringement of copyright if this title had been applicable" (*i.e.*, goods that may be lawful under foreign law but not U.S. law). There is no private right of action under § 602(b), which addresses which goods Customs may allow into the country. New § 602(a)(2) also covers piratical and counterfeit goods (whether or not those goods would be considered "lawful" un-

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[22] Statutory interpretation, after all, does not depend on construing individual words in isolation. Rather, the meaning of a phrase used in a statute "turns on 'the language itself, the specific context in which that language is used, and the broader context of the statute as a whole.'" *Nken* v. *Holder*, 129 S. Ct. at 1756 (quoting *Robinson* v. *Shell Oil Co.*, 519 U.S. 337, 341 (1997)).

der foreign law). It expands the private right of action conferred by § 602(a)(1) to exportation as well as importation, and adds criminal penalties (including forfeiture) to the civil remedy in § 602(a)(1). There is overlap among these three subsections, but none bases liability on place of manufacture.

IV. DENYING APPLICATION OF THE FIRST-SALE DOCTRINE TO GOODS MADE ABROAD WOULD HAVE SERIOUS CONSEQUENCES, WHICH CONGRESS COULD NOT HAVE INTENDED, FOR AMERICAN BUSINESSES AND CONSUMERS

A. The Decision Below Has Troubling Implications

"[I]nterpretations of a statute which would produce absurd results are to be avoided if alternative interpretations consistent with the legislative purpose are available." *Griffin* v. *Oceanic Contractors, Inc.*, 458 U.S. 564, 575 (1982); *see also Green* v. *Bock Laundry Machine Co.*, 490 U.S. 504, 527 (Scalia, J., concurring in the judgment). The lower court ignored that sensible principle, rejecting an interpretation of § 109(a) that reflects the text, history, and purpose of the first-sale doctrine in favor of one that has profound implications for both businesses and consumers.

Placing goods made abroad outside the scope of the first-sale doctrine makes it easier for copyright holders to eliminate secondary markets for those goods, thereby eliminating $40 to $60 billion annually in lawful U.S. sales, and the tax revenues that flow from them. *See, e.g.*, Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Accounting & Man-

agement Unit Working Paper No. 09-098, at 1 (Feb. 2009); KPMG LLP, *Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line* 30 (2008).

A similar threat would face the $200 billion market for used goods. *See* Lyle E. Davis, *The Thrill of the Hunt!*, THE PAPER (San Diego, CA) (Jan. 8, 2009) (reporting market estimate from National Association of Resale & Thrift Shops). A copyright holder could choose to stay silent upon the first sale of a good made abroad but then bring an action for infringement if it disagreed with terms of the good's resale. *See, e.g.*, *UMG Recordings, Inc.* v. *Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008) (first-sale doctrine protects resale of lawfully obtained promotional items even over objection of copyright owner), appeal pending, No. 08-55998 (9th Cir.).[23]

In addition, by producing goods abroad, copyright holders would suddenly gain the right to restrict rental-, lease- and other lending-based markets. That would be an exceptional development because, historically, such restrictions are tailored by Congress for only a few types of goods and only in very specific instances. *See, e.g.*, Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, § 802, 104 Stat. 5089 (amending § 109 to prohibit the rental

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[23] In the area of patent exhaustion, one court recently noted that "[d]rawing such a distinction between authorized domestic sales and authorized foreign sales would negate" this Court's stated intent in *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617 (2008), "to eliminate the possibility of a patent holder doing an 'end run' around the exhaustion doctrine by authorizing a sale, thereby reaping the benefit of its patent, then suing a downstream purchaser for patent infringement." *LG Elecs.*, 655 F. Supp. 2d at 1046. Analogous concerns are present here.

of certain computer programs); Record Rental Amendment of 1984, Pub. L. No. 98-450, § 2, 98 Stat. 1727 (amending § 109 to prohibit the rental of phonograph records). The decision below disrupts all of these legitimate forms of commercial transaction.

At the same time, by granting greater protections against competition to goods made abroad than to those made at home, the Ninth Circuit's opinion creates perverse incentives for U.S. copyright owners to produce their copyrighted works outside the United States, thereby eliminating American jobs. *See, e.g.*, U.S. Inv. Br. 19 (conceding that the decision below could "provide an artificial incentive for outsourcing"); Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 142 n.380 (2001) ("A policy that allows exclusion of gray market goods that are manufactured abroad provides an inefficient incentive to shift domestic production abroad."). Even the court below acknowledged that its interpretation provided substantially greater copyright protection to foreign than to domestically made copies, and encouraged U.S. copyright owners to outsource manufacturing. Pet. App. 16a.

Such a result lacks any coherent policy rationale. *See* U.S. Inv. Br. 19 ("That differential treatment of domestic- and foreign-manufactured goods has no evident policy justification."); Meurer, *supra*, 23 CARDOZO L. REV. at 142 n.379 (it is "hard to find any policy basis for treating the two cases [*i.e.*, manufactured at home or abroad] differently"). This problem is exacerbated because of the ease with which manufacturers can apply a copyrighted symbol, label, or package to almost any good offered for sale in the United States and the liberality with which copyrights are dispensed.

As the United States concedes, "[t]here is no reason to suppose that Congress anticipated and intended [such] result[s]." U.S. Inv. Br. 19. Indeed, the decision below even "may be inconsistent with Congress's intent in enacting other provisions of the Copyright Act" (*id.* at 14), most obviously the now-expired manufacturing provision, whose very purpose was to ensure that production remained *in* the United States. *See* U.S. *Quality King* Br. 30 ("Indeed, it is distinctly unlikely that Congress would have provided such an incentive to manufacture abroad at the same time it was shielding the domestic printing industry under Section 601.").

In fact, the logic of the decision below conflicts with *both* the rationale for the manufacturing provision *and* the rationale for its repeal. In support of the provision, legislators noted that Congress did not want the Copyright Act to "create a condition whereby work can be done under the most degraded working conditions in the world * * * and thus exclude American manufacturers from the market. * * * [That] could destroy small businesses, bring chaos to the industry, and catch manufacturers, whose labor costs and break-even points are extremely high, in a cost-price squeeze at a time when expenditures for new equipment have reduced profits to a minimum." House Report, *supra*, at 165-166. Ultimately, Congress chose to let the provision expire because legislators concluded that the provision "violate[d] the basic principle that an author's rights should not be dependent on the circumstances of manufacture," and specifically *where* an author happens to create a work; "there is no justification on principle for a manufacturing requirement in the copyright statute." *Id.* at 166. The decision below is at odds with both concerns: It makes rights turn on the place of

manufacturing, but in a way that affirmatively hurts American business interests.

The Ninth Circuit's decision distorts incentives for downstream retailers as well as for manufacturers. Neither the large retailer that imports billions of dollars of goods for resale each year, nor the small local shop that purchases its inventory from middleman exporters and distributors, can always know the provenance of lawfully made goods first sold abroad and imported for sale in the United States. Where (as here) the copyright owner places no copyright notice on the goods, retailers have no reasonable way to ascertain whether anything about the goods is protected by copyright. This is particularly true in cases in which the copyrighted work is at best ancillary to the goods consumers purchase. If copyright owners had the right to prevent importation of lawfully made goods, the retail industry would have less confidence to sell non-piratical goods acquired from an independent exporter or importer. *See Disenos Artisticos e Industriales*, 97 F.3d at 380 (noting that, if the first-sale doctrine were not applicable to imported goods then "every little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back").

Despite *Quality King*, given the practical difficulties in assuring the provenance of imported goods, retailers would be loath even to re-import goods produced in the United States, forgoing the opportunity to purchase and sell those goods at all rather than risk the expense of litigation, potential injunctive relief, seizure and loss of inventory, and/or statutory

damages. Ensuring that the first-sale doctrine is applied to lawfully made goods, regardless of where they are manufactured, thus secures the rights of everyone along the chain of commerce – the first foreign purchaser, the exporter, the importer, the domestic distributor, and/or the retailer – to sell at retail in the United States lawfully made goods legally acquired here or abroad.

The damage caused by the decision below is not limited to industry. It causes substantial harm and confusion for everyday consumers as well. The lower court's decision subjugates retailer competition to copyright owner price controls, resulting in fewer goods offered at retail, in fewer retail outlets, and at higher prices. At the same time, restrictions on the sale of used goods threaten the classic "garage sale." *See, e.g.*, *Vernor* v. *Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008) (first-sale doctrine protects resale on eBay of genuine used product first purchased at a garage sale), appeal pending, No. 09-35969 (9th Cir.). The decision below also potentially prohibits libraries from lending foreign-language texts made abroad, and prohibits individual travelers permitted to bring certain works into the country pursuant to the "suitcase exemption"[24] – a British version of a Harry Potter book or a Picasso fine art print purchased from a foreign art dealer, for exam-

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[24] Congress has exempted from infringement under 17 U.S.C. § 602(a)(3)(B) the "importation or exportation, for the private use of the importer or exporter and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States or departing from the United States with respect to copies or phonorecords forming part of such person's personal baggage."

ple – from even giving those goods away as gifts without committing copyright infringement.

The deleterious consequences of making the first-sale doctrine turn on the place of manufacture are practically undisputed. Indeed, the Ninth Circuit itself recognizes that the holding below "lead[s] to absurd and unintended results," *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994), an opinion shared by the United States. *See* U.S. Inv. Br. 18 (acknowledging that "[t]he potential implications of excluding foreign-made copies of a copyrighted work from Section 109(a)'s coverage are * * * troubling"). Those realizations (along with the numerous other indicia of statutory meaning discussed above) should lead this Court to reject the Ninth Circuit's flawed reading of the statute.

B. The "Solution" Crafted By The Ninth Circuit Has No Textual Basis

The Ninth Circuit took shelter in an exception that eliminates some of the recognized problems: A good made abroad is not "lawfully made under this title," held the lower court, but if "an authorized first sale" occurs in the United States then that good is susceptible to the first-sale doctrine anyway. Pet. App. 8a-9a.

That exception was created in a footnote of one pre-*Quality King* Ninth Circuit opinion. *Drug Emporium*, 38 F.3d at 482 n.8. It is based on neither the text of the Copyright Act nor its legislative history. Indeed, the *Drug Emporium* panel emphasized that the exception "should not be read as an endorsement" of the rule that goods made abroad are not subject to the first-sale doctrine, but simply a reflection of the fact that the panel could not overrule *BMG Music* v. *Perez*. *Ibid.* Although the logic of *BMG* was overruled in *Quality King*, the lower court

did not reexamine whether *Drug Emporium*'s exception was foreclosed as well.

Whatever the policy merits of a rule that would deny first-sale protection to goods made abroad but then re-apply the doctrine if those goods are later authorized for domestic sale, such a rule has no basis in the text of the Copyright Act. As one court recently observed (*Pearson Educ.*, 656 F. Supp. 2d at 414 (citation omitted)):

> [T]he [Ninth Circuit] has never explained how § 109(a)'s text supports a distinction based on where a first sale occurred. And the distinction it has drawn conflicts directly with *Quality King*'s holding that place of sale is irrelevant for first-sale purposes. Thus even if this Court were tempted to follow the Ninth Circuit's interpretation of § 109(a) as a way of giving effect to the supposedly conflicting policies of §§ 109(a) and 602(a), it could not do so without disregarding an express holding of the Supreme Court.

Rather than defend the Ninth's Circuit's atextual exception, however, Omega changes the subject. It argues that one implication of petitioner's reading of § 109(a) is that a copyright holder might try to assign its U.S. and foreign copyrights as between two distinct entities so that the former might try to prevent importation of the latter's goods into the United States. Br. in Opp. 10-12. That is entirely speculative: Such reorganization is not without cost, and it is not clear why any company would engage in such restructuring when the cheaper and more expedient path is to enter into contracts that bar certain redistributions and pursue companies that violate those terms. Moreover, this is not an issue without precedent in the intellectual-property laws: The trademark laws, for example, extend the first-sale doc-

trine to goods made by a separate subsidiary when the mark holder has no "real independence from the foreign manufacturer."[25]

Particularly in light of the concerns of the drafters of the 1976 Copyright Act, which as previously noted (*supra* pp. 38-40) were directed toward *unrelated* foreign copyright holders, a later court might or might not hold that such a division of rights forecloses application of the first-sale doctrine. But that is no reason to adopt the lower court's flawed reading of the statute's clear text, let alone to put an imprimatur of legitimacy on the "exception" backstopping the lower court's decision.

Speculation about loopholes aside, Costco's interpretation – that "lawfully made under this title" encompasses both goods made by the U.S. copyright holder and those made pursuant to other Title 17 licensing schemes – needs no judicially created "exception" to save its logic. It is true to the text and history of § 109(a), the lessons of *Quality King*, and the rationale for the first-sale doctrine. As this Court observed, "[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152. The matter is as simple as that.

CONCLUSION

The judgment of the court of appeals should be reversed.

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[25] *See, e.g., NEC Electronics* v. *CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987). *See also* 19 C.F.R. § 133.23(a)(2) (doctrine extends to goods made by "a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control").

Respectfully submitted.

NORMAN H. LEVINE
AARON J. MOSS
GREENBERG GLUSKER
FIELDS CLAMAN &
MACHTINGER LLP
1900 Ave. of the Stars
Los Angeles, CA 90067
(310) 553-3610

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL,
ENGLERT, ORSECK,
UNTEREINER & SAUBER
LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

Counsel for Petitioner

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RESPONDENT'S BRIEF

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IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA S.A.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF FOR RESPONDENT

JESS M. COLLEN
THOMAS P. GULICK
MATTHEW C. WAGNER
COLLEN IP
The Holyoke-Manhattan Building
80 South Highland Avenue
Ossining, New York 10562
(914) 941-5668

MICHAEL K. KELLOGG
Counsel of Record
AARON M. PANNER
KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C.
1615 M Street, N.W.
Suite 400
Washington, D.C. 20036
(202) 326-7900
(mkellogg@khhte.com)

Counsel for Respondent

August 31, 2010

3316

QUESTION PRESENTED

Whether the owner of a U.S. copyright forfeits its exclusive right to distribute copies domestically by making and selling copies abroad for distribution outside the United States.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6 of the Rules of this Court, respondent Omega S.A. states the following:

Omega S.A. is a wholly owned subsidiary of a publicly held Swiss corporation, The Swatch Group, Ltd. The Swatch Group, Ltd. is the parent company of Omega S.A.

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INTRODUCTION

Respondent Omega S.A. ("Omega") is a Swiss company that manufactures watches in Switzerland. Those watches bear laser-engraved copies of the Omega Globe Design, a work protected by copyright in the United States. The Copyright Act of 1976 gives Omega the exclusive right to distribute copies of the work in the United States. Petitioner Costco Wholesale Corporation ("Costco") acquired OMEGA brand watches bearing copies of the copyrighted work that were manufactured and sold outside the United States for exclusive distribution outside the United States. The watches were imported without Omega's authorization, and Costco distributed them in the United States.

Section 602(a)(1) of the Copyright Act provides that "[i]mportation into the United States, without the authority of the owner of the copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a)(1). There is no dispute that the importation of Omega watches bearing copies of the Omega Globe Design is covered by the literal terms of § 602(a)(1) and that Costco's distribution of those watches therefore implicates the exclusive rights of Omega to distribute copies domestically under § 106, 17 U.S.C. § 106. The question in this case is whether the first-sale doctrine embodied in § 109(a) – which allows the owner of a copy "lawfully made under this title" to sell that copy without the authorization of the copyright owner, *id.* § 109(a) – provides Costco a defense to infringement. The question, in other words, is whether a U.S. copyright owner forfeits its exclusive right to distribute copies

in the United States by making and selling copies abroad for distribution outside the United States.

The language, structure, and history of the Copyright Act, as well as the history and logic underlying the first-sale doctrine, all make clear that a copyright owner does not forfeit the exclusive right to distribute copies domestically simply by making and selling copies abroad for distribution outside the United States. In *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998), this Court held that § 602(a)(1), like the distribution right in § 106(3), is subject to the first-sale doctrine embodied in § 109(a). The Court made clear, however, that the first-sale doctrine does not apply to copies that are "'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147. The Court explained that such copies – though authorized by the U.S. copyright owner – are not subject to § 109(a).

That same analysis applies here. The Copyright Act does not grant a copyright owner the right to reproduce copies *outside* the United States; Omega's right to reproduce copies of its work in Switzerland is governed by Swiss law, not U.S. law. Nor did Omega exercise any of the exclusive rights granted under the Copyright Act by selling the copies abroad for distribution outside the United States.

The Court should give effect to the plain language of the statute, reaffirm the analysis underlying *Quality King*, and hold that a third party infringes a copyright owner's exclusive rights by importing or distributing in the United States a copy that the copyright owner made and sold overseas exclusively for distribution outside the United States.

STATEMENT OF THE CASE

1. Omega manufactures watches in Switzerland. *See* JA 60. It owns a registered U.S. copyright on an original artwork, the Omega Globe Design, which is laser-engraved into Omega watches at the time of their manufacture at Omega's facility in Switzerland. *See* JA 60, 83-87.

Costco is a Fortune 50 corporation, with 2008 sales of $71 billion. In 2003, Costco approached Omega to discuss Costco's interest in carrying OMEGA brand watches. *See* JA 94-100. Costco threatened that, if Omega did not agree to make specific models of watches available to Costco through authorized channels, on terms acceptable to Costco, Costco instead would obtain what it described as "indirect merchandise." *See* JA 94.

When Omega did not agree to Costco's terms, Costco arranged to acquire the watches from a source that Costco knew was obtaining the watches from sources outside the United States; Costco likewise knew that the watches were being imported into the United States without Omega's authorization. *See* JA 27, 54-57.[1] Costco then put the watches on sale in its retail stores. *See* JA 61, 65-66.

Omega purchased two watches from Costco retail stores. *See* JA 102-03. An investigation revealed that the watches had been sold overseas under distribution agreements that restricted resale to specific geographic territories outside the United States. *See* JA 67-78, 104; *see also* Declaration of Raynald Aesch-

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[1] Indeed, Costco provided its supplier with a list of specific models that it wished to obtain, thus effectively ordering the importation of those articles. *See* C.A. E.R. 18-19 (describing Costco's "wish list").

limann in Support of Plaintiff's Motion for Summary Judgment ¶¶ 10-11 & Exh. E.

2. Omega brought a one-count copyright infringement action under § 106 and § 602 of the Copyright Act, alleging that Costco had distributed copies of Omega's copyright-protected works without Omega's authorization or consent. *See* JA 31-41 (First Amended Complaint). The district court initially issued a preliminary injunction against Costco. *See* JA 26-29. Later, without explanation, the district court granted *Costco's* summary judgment motion and vacated the preliminary injunction. *See* Pet. App. 18a-19a.

3. The Ninth Circuit reversed. It noted that, under circuit precedent, § 109 of the Copyright Act "provide[s] no defense to an infringement action under §§ 106(3) and 602(a)[(1)[2]] that involves (1) foreign-made, nonpiratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner's authority." Pet. App. 3a; *see id.* at 7a-10a. The court then explained that *Quality King* neither overruled those precedents nor "undercut[] the theory or reasoning underlying the prior circuit precedent in such a way that the cases are clearly irreconcilable." *Id.* at 10a (internal quotation marks omitted).

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[2] The relevant provision was originally adopted in the Copyright Act of 1976 as § 602(a) of Title 17. In 2008, § 602(a) was expanded to address importation and exportation of piratical copies, *see* Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b)-(c)(1), 122 Stat. 4256, 4259-60 (adding 17 U.S.C. § 602(a)(2)), and § 602(a) was recodified as § 602(a)(1); the exceptions to § 602(a) were codified at § 602(a)(3). We refer to the provision according to its current codification.

The Ninth Circuit held, first, that *Quality King* did not overrule prior precedent because that case "involved 'round trip' importation" – *i.e.*, a copy made inside the United States, sold from the United States to a third party overseas, and then shipped back into the United States. *Id.* As the court explained, "[t]he [Supreme] Court held that § 109(a) can provide a defense to an action under § 602(a)[(1)] in this context . . . [but], because the facts involved only domestically manufactured copies, the Court did not address the effect of § 109(a) on claims involving unauthorized importation of copies made abroad." *Id.* at 10a-11a.

The Ninth Circuit next explained that the reasoning in *Quality King* did not undermine circuit precedent. Those earlier Ninth Circuit decisions had recognized that to deem a copy that was made overseas as "lawfully made under this title," 17 U.S.C. § 109(a), "would violate the presumption against the extraterritorial application of U.S. law." Pet. App. 11a. *Quality King*, the court noted, had "dismissed a similar concern that the triggering of § 109(a) by *foreign sales* would require an invalid extraterritorial application of the Copyright Act, explaining that merely recognizing the occurrence of such sales 'does not require the extraterritorial application of the Act.'" *Id.* (quoting *Quality King*, 523 U.S. at 145 n.14). But "the application of § 109(a) to *foreign-made* copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not." *Id.* at 13a (emphasis added). "To characterize the making of copies overseas as 'lawful[] . . . under [Title 17]' would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United

States .... Specifically, it would mean that a copyright owner's foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application." *Id.* (brackets and first ellipsis in original).

The Ninth Circuit observed that "significant parts of *Quality King*'s analysis are also consistent" with circuit precedent. *Id.* "The Court found that copies of a work copyrighted under Title 17 are not necessarily 'lawfully made under [Title 17]' even when made by the owner of the copyright: The category of copies covered by § 602(a)[(1)], it was explained, encompasses 'copies that were "lawfully made" not under the United States Copyright Act, but instead, under the law of some other country.'" *Id.* (quoting *Quality King*, 523 U.S. at 147) (first alteration in original). "In short, copies covered by the phrase 'lawfully made under [Title 17]' in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright." *Id.* at 14a (alteration in original).

The Ninth Circuit cited Justice Ginsburg's concurring opinion in *Quality King*, which expressly recognized that the Court's opinion did not address copies made outside the United States. *See id.* at 15a.

4. Petitioner's petition for rehearing and rehearing en banc was denied. *See* Pet. App. 20a-21a. The Court granted Costco's petition for certiorari.

SUMMARY OF ARGUMENT

Section 106(3) of the Copyright Act grants the "owner of copyright under this title" the "exclusive right[]" "to distribute copies . . . of the copyrighted work." 17 U.S.C. § 106(3). Section 602(a)(1) extends that right by barring "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States." *Id.* § 602(a)(1). Costco concedes for purposes of this Court's review that it has intruded on those exclusive rights; the only question is whether it has a defense to infringement based on the first-sale provision, § 109(a), 17 U.S.C. § 109(a). The Ninth Circuit correctly concluded that it does not.

I. This Court's construction of the Copyright Act in *Quality King* "mandates acceptance" of the Ninth Circuit's holding. 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(7) (rev. ed. 2010). The *Quality King* Court made clear that, § 109(a) notwithstanding, § 602(a)(1) bars importation of foreign-made copies authorized by the U.S. copyright owner solely for sale outside the United States. The language, structure, and history of the Copyright Act, as well as the history and logic underlying the first-sale doctrine, all support that result.

A. Costco's first-sale defense founders on the unambiguous language of § 109(a). *See Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253-54 (1992). Under the plain meaning of § 109(a), a copy made overseas – with or without the permission of the copyright owner – is not, without more, "lawfully made *under this title*." The emphasized language unambiguously distinguishes between copies the

making of which is governed by the exclusive rights granted under the Copyright Act and copies the making of which is not so governed. The making of a copy abroad for distribution abroad does not implicate *any* of the exclusive rights granted under § 106; such a copy is not lawfully made or unlawfully made "under this title."

Costco argues that any copy made or authorized by a U.S. copyright owner is, without more and in all circumstances, "lawfully made under this title." Costco Br. 16. That construction ignores the fact that "all the rights conferred under the Copyright Act relate to exploitation within this country." 2 *Nimmer on Copyright* § 8.11[B][1], at 8-152.2. When a copy is made outside the United States for foreign distribution, its manufacture and sale are not governed by the Copyright Act, and it cannot be lawfully – or unlawfully – made "under this title."

Costco also tries to create ambiguity by arguing that the Ninth Circuit's construction of "lawfully made under this title" is incompatible with the use of the phrase elsewhere in the statute. Costco is mistaken. Under the decision below, just as an educational institution may not knowingly use a pirated copy, it may not knowingly use a copy that is unlawfully imported, which makes perfect sense. *See* 17 U.S.C. § 110. And the relevant provision of the Audio Home Recording Act of 1992 ("AHRA") simply provides that a party may qualify for royalties if its sound recording was lawfully distributed in the United States (but not if the recording was authorized for distribution exclusively abroad). *See id.* § 1006(a)(1)(A). Again, that is perfectly sensible. As for the obligation to *pay* royalties under the AHRA, that depends on the importation of digital audio

recording *devices* and *media* – not recordings – a point that Costco simply misunderstands. *See id.* § 1004.

B. Costco's construction of § 109(a) also conflicts with the Court's reading of the statute in *Quality King*. The Court reasoned that the first-sale defense does not apply to copies that are "'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." 523 U.S. at 147. To show that the "category is not a merely hypothetical one," *id.*, the Court cited the example of a U.S. copyright owner that grants rights under a foreign copyright to a foreign publisher. The Court stated that such copies – though authorized by the U.S. copyright owner – are not subject to § 109(a). That determination was not mere dicta, but integral to the Court's construction of the Copyright Act and therefore entitled to precedential weight.

C. The construction of the first-sale provision that limits its application to copies "lawfully made under this title" is necessary to harmonize § 109(a) with § 602(a)(1), which broadly prohibits unauthorized importation of copies, including legitimate copies. *See Bilski v. Kappos*, 130 S. Ct. 3218, 3228 (2010) (statute should be construed to avoid rendering any provision superfluous or insignificant). That § 602(a)(1) undisputedly applies to *legitimate* copies made overseas disproves the broad claims of Costco and its *amici* concerning Congress's supposed hostility to segmentation of international markets. The central purpose of § 602(a)(1) is to preserve the right of copyright owners to authorize foreign distribution of copies made outside the United States without simultaneously authorizing importation into the United States. This construction protects the U.S.

copyright owner's exclusive right to distribute copies domestically.

D. The understanding that a copyright owner may authorize overseas distribution without forfeiting exclusive domestic distribution rights is faithful to the roots of § 109 in this Court's decision in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). Underlying the "first sale" doctrine is the notion that, once a copyright holder has exercised its intellectual property rights upon the sale of a particular copy, it has exhausted those exclusive rights with respect to that copy. When a copy is manufactured abroad for sale abroad, however, the copyright holder has *not* exercised *any* of the exclusive rights granted under U.S. law with respect to that copy, and exhaustion does not apply.

E. The Ninth Circuit did not hold that *only* copies reproduced in the United States are lawfully made under Title 17 for purposes of § 109(a). This case does not present the question whether, for example, the authorized sale for domestic distribution of a copy made abroad would satisfy § 109(a). But the Ninth Circuit's indication that it would, *see* Pet. App. 16a, is consistent not only with the justification underlying the first-sale doctrine, but also with the language of § 109(a).

II. In seeking certiorari, Costco took the position that the Copyright Act gives the owner of a U.S. copyright the right to license another party to make and sell copies abroad without surrendering the protection that § 602(a)(1) provides, but that the copyright owner could not make such copies itself. Costco never expressly disavows its earlier position, but it argues now that the foreign copyright must be transferred to an unrelated third party for § 602(a)(1) to

apply; that is, it asserts that only "unrelated foreign copyright holders" can make or authorize legitimate copies that are subject to § 602(a)(1). Costco Br. 39.

That argument not only conflicts with *Quality King*; it also is at odds with the legal equivalence, under the Copyright Act, between the grant of an exclusive license and the assignment of an ownership interest in a copyright. Costco provides no reason that Congress would have intended to make the protection that § 602(a)(1) affords turn on precisely which rights a U.S. copyright owner transfers and in what manner. That reading of the statute – like Costco's earlier proposal – would simply impose additional transaction costs without changing anything of substance. Because Costco admits that copyright owners have the right to prevent unauthorized importation of legitimate copies, its policy arguments carry no weight.

III. A. Sound policy considerations support the congressional decision to protect the domestic distribution right from unauthorized imports. Such market segmentation can prevent free-riding, thereby promoting investment in domestic distribution that benefits consumers. Furthermore, such segmentation allows copyright owners to develop their intellectual property rights more efficiently, ensuring that copyrighted works can be more widely available and helping to "promote the Progress of Science and useful Arts." U.S. Const. art. I, § 8, cl. 8. "Calibrating rational economic incentives . . . is a task primarily for Congress, not the courts." *Eldred v. Ashcroft*, 537 U.S. 186, 207 n.15 (2003); *see also Quality King*, 523 U.S. at 153.

B. Costco's suggestion that application of § 109(a) and § 602(a)(1) as written would cause adverse policy

consequences is, to say the least, unsupported. The Ninth Circuit's understanding of the Copyright Act reflects the state of the law as it has stood for a quarter century; no adverse consequences have arrived. Congress *intended* to provide U.S. copyright owners the right separately to authorize foreign and domestic distribution of legitimate copies – that is the core purpose of § 602(a)(1). Moreover, even Costco admits that U.S. copyright owners may do so, as long as they assign their foreign copyrights to a third party. In any event, if Costco's goal is to change the law, it should petition Congress, not this Court.

ARGUMENT

I. THE FIRST-SALE PROVISION DOES NOT APPLY TO COPIES MADE ABROAD AND SOLD WITHOUT THE COPYRIGHT OWNER'S AUTHORIZATION TO IMPORT OR DISTRIBUTE IN THE UNITED STATES

This case presents the question whether a copyright owner can make and sell copies of its work abroad without surrendering the exclusive rights granted under § 106(3) and § 602(a)(1) of the Copyright Act to import and distribute copies domestically. A straightforward reading of the Act, confirmed by the Court's analysis in *Quality King* and long-standing exhaustion principles, makes clear that the answer is yes.

A. A Copy Is Not "Lawfully Made Under This Title" When Its Reproduction and Distribution Do Not Implicate Any Exclusive Rights Granted Under the Copyright Act

1. Section 109(a) permits "the owner of a particular copy . . . *lawfully made under this title*" "to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a) (emphasis added). The meaning of

the words "lawfully made under this title" is plain: a copy is lawfully made under Title 17 if the making of the copy is both *governed by* and *consistent with* the Copyright Act. If the making of the copy is not governed by the Copyright Act, the copy is not made "under this title" at all. *See Quality King*, 523 U.S. at 142 n.9 ("It is noteworthy that § 109(a) . . . does not apply to 'any copy'; it applies only to a copy that was 'lawfully made under this title.'").

The Court need not go beyond the plain language of § 109(a) to affirm the judgment. *See Connecticut Nat'l Bank*, 503 U.S. at 253-54 ("[C]ourts must presume that a legislature says in a statute what it means and means in a statute what it says there. When the words of a statute are unambiguous, then, this first canon is also the last . . . .") (citations omitted). It is uncontested that Omega manufactured the copies that are at issue in Switzerland. For purposes of this Court's review, it is likewise uncontested that Omega sold them overseas pursuant to contracts that restricted their distribution to areas outside the United States. *See* Pet. App. 17a ("There is no genuine dispute that the copies of the Omega Globe Design were sold in the United States without Omega's authority."). The Ninth Circuit was accordingly correct that the copies were not lawfully made *under Title 17*. *See id.* at 14a.

Section 106 of the Copyright Act enumerates the copyright owner's "exclusive rights to do and to authorize" certain activities, including the right "to reproduce the copyrighted work." 17 U.S.C. § 106(1). But those exclusive rights do not apply to conduct that takes place exclusively outside the United States. *See United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260, 264 (1908); 4 *Nimmer on Copyright*

§ 17.02, at 17-19 ("[C]opyright laws do not have any extraterritorial operation."); *cf. Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) ("United States law governs domestically but does not rule the world . . . . Foreign conduct is [generally] the domain of foreign law . . . .") (internal quotation marks omitted; alteration in original); *Beechwood Music Corp. v. Vee Jay Records, Inc.*, 328 F.2d 728, 729 (2d Cir. 1964) (per curiam) ("It would be quite unreasonable to construe the condition of the compulsory license clause . . . as being satisfied by the manufacture of records in a foreign country, at least when these have not been brought into the United States.") (internal quotation marks omitted). Accordingly, when a copy is manufactured outside the United States for sale outside the United States, it cannot be made "pursuant to, or in compliance with, the Copyright Act" – to use the definition urged by petitioner. Pet. 9. Nor can it be made in violation of the Copyright Act. The Copyright Act simply does not govern the conduct.

Costco argues that, "because Omega is the U.S. copyright holder, any copies that it makes are necessarily lawful according to 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to make or to authorize copies." Costco Br. 15-16. But Costco is simply mistaken in its assertion that § 106(1) gives Omega any right to make or to exclude others from making copies *in Switzerland*. *See* 2 *Nimmer on Copyright* § 8.11[B][1], at 8-152.2 ("[A]ll the rights conferred under the Copyright Act relate to exploitation within this country."). Omega's rights to reproduce and distribute copies in Switzerland are governed by the law of Switzerland – not by Title 17. *See* Berne Convention for the Protection of Literary and Artistic Works art. 5(1), revised at Paris

July 24, 1971, 25 U.S.T. 1341, 828 U.N.T.S. 221 ("Berne Convention").

There is no dispute that the phrase "lawfully made under this title" should be understood "in light of 'the normal meaning of the language chosen by Congress.'" Costco Br. 15 (quoting *Regents of Univ. of California v. Public Employment Relations Bd.*, 485 U.S. 589, 595 (1988)). Where, as here, a copy is alleged to be lawfully made solely on the basis of its manufacture (by the copyright owner), it can be lawfully made "under this title" only if the Copyright Act governs that act of manufacture. Accordingly, it contradicts the plain meaning of the provision to say that copies made in Switzerland for sale outside the United States are either lawfully or unlawfully "made *under this title*."[3] Because there is no other basis on which Costco claims that the copies at issue here were "lawfully made under this title," the defense provided under § 109(a) is unavailable.

2. This straightforward understanding of "lawfully made under this title" is fully consistent with the pervasive use of the phrase "under this title" in the Copyright Act to specify rights or conduct governed by U.S. law. To give just a few examples, both § 106 and § 602(a) refer to the "owner of copyright under this title," 17 U.S.C. §§ 106, 602(a)(1), (2) – *i.e.*, the holder of rights granted *under U.S. law*. Section 104 refers to works that "are subject to protection under this title," *id.* § 104(a), (b) – *i.e.*, that are protected *under U.S. law*, as distinguished from, for example, protection solely under foreign law, *see*

[3] By contrast, the copies at issue in *Quality King* were made in the United States by the copyright owner and therefore were "lawfully made under this title."

id. § 104(c)-(d). Section 114(d)(4) refers to "remedies available under this title," *id.* § 114(d)(4)(B)(iii), (C) – *i.e.*, remedies available under U.S. law. Section 503 refers to actions "under this title," *id.* § 503(a)(1) – *i.e.*, actions based on the rights granted by the Copyright Act. The phrase is used throughout Title 17 in the same manner.

Costco seeks to create ambiguity by arguing that the Ninth Circuit's construction of the phrase "lawfully made under this title" is "incompatible" with the use of the phrase elsewhere in the Copyright Act. No such incompatibility exists. The Ninth Circuit's holding is that a copy made abroad that is sold without authorization to distribute the copy in the United States is not "lawfully made under this title." That holding does not create any tension with the use of the same phrase in the two other locations in Title 17 where it appears. *See Barnhart v. Sigmon Coal Co.*, 534 U.S. 438, 461-62 (2002) (Court will not "alter the text" in the absence of "conflicting provisions or ambiguous language").[4]

First, § 110 provides that certain educational performances and displays are "not infringements of copyright" unless they are "given by means of a copy that was not lawfully made under this title, and that the person responsible for the performance knew or

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[4] The tension that Costco attempts to find in the statute is based on the assertion that the Ninth Circuit held that "lawfully made under this title" *means* "lawfully made in the United States." Costco Br. 11, 15. That is not the Ninth Circuit's holding; as we explain below, it is consistent with the text of the statute that copies may be reproduced abroad but nevertheless be "lawfully made" because they carry authorization under U.S. law for lawful distribution in the United States. *See infra* Part I.E. In any event, there is no incompatibility based on what the Ninth Circuit held.

had reason to believe was not lawfully made." 17 U.S.C. § 110(1); *see also id.* § 110(2). Under the Ninth Circuit's holding, if such a performance were by means of a copy that was imported in violation of § 602(a)(1), and the responsible person or institution was aware of the violation, it would lose the protection afforded for performances by means of non-infringing copies. There is nothing "incompatible" (Costco Br. 16) in that.

Second, the use of the phrase in one provision of the AHRA is likewise entirely compatible with the Ninth Circuit's holding. That statute requires payments of royalties, not by those who copy or distribute a work protected by copyright, but by vendors of digital audio recording devices and digital audio recording media. *See* 17 U.S.C. §§ 1003, 1004.[5] Those royalties are paid into two funds and then distributed to songwriters, music publishers, record labels, and artists. *See id.* § 1006(b).

To qualify for royalties from these funds, an "interested copyright party" must have a "musical work or sound recording" that has been "embodied in a digital musical recording or an analog musical recording lawfully made under this title that has been distributed." *Id.* § 1006(a)(1)(A). Under the Ninth Circuit's holding, if a copyright owner had *not* authorized

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[5] In exchange, the statute provides that "[n]o action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings." 17 U.S.C. § 1008; *cf. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (discussing indirect infringement).

importation and domestic distribution, that work would not qualify for royalty payments under § 1006(a)(1)(A). It makes perfect sense for Congress to provide royalties only in those circumstances where domestic distribution is authorized by the copyright owner; that result is in no sense "absurd" (Costco Br. 18).

Costco claims that, if "the phrase 'lawfully made under this title' referred only to copies manufactured in the United States, no royalty payments under § 1006 would be due on digital audio recording media manufactured abroad and imported into the United States." *Id.* Costco misreads the relevant provisions. Section 1006(a)(1)(A) identifies the parties that are entitled to *receive* royalties. That has absolutely nothing to do with the basis for the *payment* of royalties under § 1004, which is based on the distribution of digital audio recording devices and media – not musical recordings, whether lawfully made under this title or otherwise.[6] There is no inconsistency.

B. *Quality King* Rejects Costco's Construction of § 109(a)

1. The conclusion that § 109(a) applies only to copies made in a manner that implicates the exclusive rights granted by the Copyright Act also is mandated by *Quality King*. The Court's reasoning

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[6] Digital audio recording media *cannot* be "musical recordings" – that is, recordings of copyrighted works – by definition. *See* 17 U.S.C. § 1001(4)(B)(i) (providing that "digital audio recording medium" "does not include any material object . . . that embodies a sound recording at the time it is first distributed by the importer or manufacturer"). The reference to "location of manufacturing" (Costco Br. 18) in § 1004(b) refers to digital audio recording media, not recordings of copyrighted works. *Cf.* Costco Br. 18-19.

"implies that it would endorse the prevailing law" providing that the first-sale doctrine is inapplicable to foreign-made copies sold for overseas distribution. 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1.2.a, at 7:144 (2010 Supp.); *see also* 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(7); American Bar Ass'n, Recommendation No. 109, at 8-9 (Feb. 2010) ("ABA Recommendation") ("[I]t is apparent from the Supreme Court's decision in *Quality King* that a copyright owner may, pursuant to § 602(a)[(1)], prevent the importation of certain copyrighted works lawfully made under the law of another country."), *available at* www.abanet.org/leadership/2010/midyear/summary_of_recommendations/109.doc; *see also* U.S. Cert. Br. 14.

In rejecting the argument that § 602(a)(1) would be effectively superfluous if it were subject to the first-sale defense of § 109(a), the Court noted that, notwithstanding the first-sale defense, § 602(a)(1) nevertheless "applies to a category of copies that are neither piratical nor 'lawfully made under this title,'" including "copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Quality King*, 523 U.S. at 147. In elaborating on the category of copies that would be both lawfully made and *not* subject to the first-sale doctrine, the Court noted that "a publisher of the United States edition and a publisher of the British edition of the same work" would "each . . . make lawful copies." *Id.* at 148. The Court continued:

> If *the author of the work* gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of the United States edition and the exclusive British distri-

> bution rights to the publisher of the British edition, however, presumably only those made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a)[(1)] (or, for that matter, to an action under § 106(a)(3), if there was a distribution of the copies).

Id. (footnote omitted; emphasis added); *see also* 17 U.S.C. § 201(a) ("Copyright in a work protected under this title vests initially in the author or authors of the work."). The Court's example thus involves copies that are authorized by the owner of the U.S. copyright – *i.e.*, the author of the work – but that may not be imported without separate authorization.

Costco initially conceded that this is the correct reading of *Quality King*. In its petition, Costco conceded that, under this Court's analysis, a copyright owner may grant distribution rights under the U.S. copyright to one licensee and distribution rights under a foreign copyright to others: "if a copyright owner gives exclusive American publishing rights to Person A, and exclusive British publishing rights to Person B, . . . B's books are not lawfully made under the Copyright Act." Pet. 14.

2. Costco nevertheless now argues that "any copies made (*or otherwise authorized*) by [the U.S. copyright owner] are 'lawfully made under this title.'" Costco Br. 16 (emphasis added). But that argument not only is inconsistent with the position that Costco itself took in seeking review; it also is in conflict with *Quality King*. The Court's analysis

depended on the understanding that it is *not* the case that any copy made under the authority of the U.S. copyright owner is subject to § 109(a). Instead, a copyright owner may grant distribution rights under the U.S. copyright to one licensee and distribution rights under a foreign copyright to others.[7]

Furthermore, the Court's construction of § 109(a) was central to the Court's holding that § 602(a)(1) is subject to the first-sale defense; it is no mere dicta. *See Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 67 (1996) ("When an opinion issues for the Court, it

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[7] Under modern copyright law, national exhaustion (or, in the case of the European Union, community-wide exhaustion) – not international exhaustion – is the norm. *See* Ryan L. Vinelli, *Bringing Down the Walls: How Technology Is Being Used To Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights*, 17 Cardozo J. Int'l & Comp. L. 135, 148-51 (2009). Under a national exhaustion regime, a copyright owner may authorize a sale of a copy in one country without exhausting its right to bar distribution of that copy in another. *See* Theo Papadopoulos, *The First Sale Doctrine in International Intellectual Property Law: Trade in Copyright Related Entertainment Products*, 2 Ent. L. 40, 50 (2003). U.S. law is consistent with the international norm.

Amici Retail Industry Leaders Association *et al.* argue that, "under the WIPO treaty, a sale or transfer authorized by the copyright owner triggers exhaustion, without limitation as to the place of manufacture." Br. 27 n.32. This is not correct. The treaty specifically provides that whether, and under what circumstances, an initial sale will exhaust a copyright owner's exclusive distribution right is a matter expressly reserved to determination under national law, not international law. *See* WIPO Copyright Treaty art. 6(2), Dec. 20, 1996, S. Treaty Doc. No. 105-17, 2186 U.N.T.S. 121 ("Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) [i.e., the distribution right] applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.").

is not only the result but also those portions of the opinion necessary to that result by which we are bound."); *Ashcroft v. ACLU*, 535 U.S. 564, 594 (2002) (Kennedy, J., concurring in the judgment) (statement that was "one rationale for the holding of the case" cannot be dismissed as dicta); *Freytag v. Commissioner*, 501 U.S. 868, 902-03 (1991) (Scalia, J., concurring in part and concurring in the judgment) (Court should "follow the course mapped out" in prior decision where earlier statement was "essential part of [the Court's] reasoning"); *County of Allegheny v. ACLU*, 492 U.S. 573, 668 (1989) (Kennedy, J., concurring in the judgment in part and dissenting in part) ("As a general rule, the principle of *stare decisis* directs us to adhere not only to the holdings of our prior cases, but also to their explications of the governing rules of law."). And it is well settled that "[c]onsiderations of *stare decisis* have special force in the area of statutory interpretation," where "Congress remains free to alter what [this Court] ha[s] done." *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989).

Congress recently has recodified § 602(a)(1). In doing so, it could have addressed any portion of the analysis in *Quality King* with which it did not agree. Congress instead maintained § 602(a)(1) unchanged. Indeed, the understanding that § 602(a)(1) bars importation of legitimate copies made and sold abroad for foreign distribution has been the prevailing law for nearly 30 years. *See* 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141. Congress has amended the Copyright Act more than 50 times since the district court for the Eastern District of Pennsylvania decided *CBS, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424

(3d Cir. 1984) (table), which first held that the first-sale defense of § 109(a) was not available in the case of goods manufactured and sold abroad. Virtually every case to decide the issue in the subsequent decades – in circumstances involving all types of copyrighted works, including literary works, computer programs, and graphic works – has reached the same result.[8] The long period of congressional inaction in the face of effectively unanimous judicial interpretation argues strongly against the adoption of the conflicting interpretation that Costco advocates. *Cf. Bragdon v. Abbott*, 524 U.S. 624, 645 (1998) ("When . . . judicial interpretations have settled the meaning of an existing statutory provision, repetition of the same language in a new statute indicates, as a general matter, the intent to incorporate its . . . judicial interpretations as well.").

3. The Court's determination that a U.S. copyright owner has the right to authorize a licensee to make and sell copies abroad without subjecting those copies to the first-sale doctrine likewise dictates that a copyright owner may make and sell copies abroad *itself* without surrendering its exclusive rights to distribute copies in the United States. The exclusive rights granted under § 106 – including the exclusive right to distribute copies – do not depend on whether the copyright owner exercises those rights or authorizes another to do so. To the contrary, § 106 grants

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[8] *See* Omega Br. in Opp. 7 n.2; *see also, e.g., Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc.*, 658 F. Supp. 458, 463 (E.D. Pa. 1987); *CBS Inc. v. Casino Record Distribs., Inc.*, 654 F. Supp. 677, 678 (S.D. Fla. 1987); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 976-77 (N.D. Cal. 1986); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *Nintendo of Am., Inc. v. Elcon Indus., Inc.*, 564 F. Supp. 937, 943-44 (E.D. Mich. 1982).

copyright owners the right "to *do* and to *authorize*" certain things. 17 U.S.C. § 106 (emphases added). The claim that Congress intended, in this one context but no other, to draw a dramatic distinction between the consequences of "doing" and "authorizing" clashes with the nature of the rights granted by the Copyright Act. *See* U.S. Cert. Br. 15-16. Costco no longer contests the point. *See* Costco Br. 38 ("'[I]t would seem exceedingly odd that copyright protection should turn on which party has furnished the physical stuff to which the copyrighted conception is affixed – with the protection lost if the author does not assume a role for which others are usually better suited.'") (quoting *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) (Friendly, J.)).

C. The First-Sale Defense Cannot Apply to Authorized Copies, Made and Sold Abroad for Foreign Distribution, Without Depriving § 602(a)(1) of Significance

1. The conclusion that § 109(a) does not apply to foreign-made copies sold for distribution abroad is likewise necessary to avoid rendering § 602(a)(1) insignificant or superfluous. *See Bilski*, 130 S. Ct. at 3228 (avoiding construction that would "violate the canon against interpreting any statutory provision in a manner that would render another provision superfluous"); *New Process Steel, L.P. v. NLRB*, 130 S. Ct. 2635, 2640 (2010) (adopting construction as "the only way to harmonize and *give meaningful effect to* all of the provisions" in the statutory provision) (emphasis added); *Regions Hosp. v. Shalala*, 522 U.S. 448, 467 (1998) (Scalia, J., dissenting) ("'[A] statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall

be superfluous, void, or insignificant.'") (quoting *Washington Market Co. v. Hoffman*, 101 U.S. 112, 115-16 (1879)). That principle has particular force in this context, because § 109(a) and § 602(a)(1) were adopted as part of the same legislation, the Copyright Act of 1976. *See Bilski*, 130 S. Ct. at 3251 (Stevens, J., concurring in the judgment). As the United States has explained, "[i]f all copies made in foreign jurisdictions by or with the consent of the United States copyright owner are 'lawfully made under this title' within the meaning of Section 109(a), the category of copies whose importation could be blocked under Section 602(a)(1) would be extremely small." U.S. Cert. Br. 14.

Section 602(a)(1) states that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a)(1). To make sense of this provision in the context of § 602 as a whole, it must be read to apply not only to unauthorized or piratical copies, but to authorized copies as well. *See* 2 *Goldstein on Copyright* § 7.5.2, at 7:130.1 ("Section 602(a)[(1)] encompasses both piratical and gray market goods, and provides that their unauthorized importation into the United States infringes section 106(3)'s exclusive right to distribute"). Indeed, the Court already reached this conclusion in *Quality King*. *See* 523 U.S. at 147.

The conclusion that § 602(a)(1) must apply to non-piratical copies made and sold abroad – notwithstanding the first-sale doctrine – is plainly correct. Sections 602(a)(2) and 602(b) provide remedies in the case of piratical goods that would entirely sub-

sume § 602(a)(1) if that provision were limited to unauthorized copies. Section 602(a)(2) provides that "[i]mportation into the United States . . . without the authority of the owner of copyright under this title, of copies . . . the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable, is an infringement . . . actionable under sections 501 and 506." 17 U.S.C. § 602(a)(2). And § 602(b) prohibits importation of such copies, providing United States Customs and Border Protection authority to prevent importation of such piratical copies.

The Court in *Quality King* made clear that § 602(a)(1) applies to copies lawfully made under a foreign copyright, *see supra* Part I.B; it also noted, however, that, "even if § 602(a)[(1)] did apply only to piratical copies, it at least would provide the copyright holder with a private remedy." 523 U.S. at 146. But § 602(a)(2) now provides that private remedy – a remedy that applies not only to importation but also to exportation – to complement the criminal and Customs-enforcement remedies provided in § 602(a)(2) and § 602(b). Section 602(a)(1) provides no additional remedy with respect to piratical copies; its sole purpose is with respect to copies lawfully made under some other law.

The Court also noted that, "because the protection afforded by § 109(a) is available only to the 'owner' of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." *Id.* at 146-47. But, as a leading commentator has noted, "[i]t may

be wondered whether such potential causes of action are more than theoretical" because, "'[i]n a typical commercial transaction, . . . the shipper transfers "possession, custody, control *and title* to the products."'" 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(6) n.111.61 (citations omitted; emphasis added). If Congress intended § 602(a)(1) to apply only to copies imported by non-owners, it hardly would have used the broad phrase "acquired outside the United States." *See* ABA Recommendation at 9 ("We share the view of the . . . court [in *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 WL 3364037 (S.D.N.Y. Oct. 19, 2009)] that it would be troubling if th[e] category of works [subject to § 602(a)(1)] were limited to those held by bailees and similar possessors, in light of the statute's broad language.")

The understanding that § 602(a)(1) applies to legitimate copies is further reinforced by the fact that the other provisions of § 602 make clear that, when Congress intends to limit statutory coverage to piratical copies, it does so expressly. Congress designates unauthorized copies by referring to circumstances "where the making of the copies" "would have constituted an infringement of copyright if this title had been applicable." 17 U.S.C. § 602(a)(2), (b). Had it intended to limit the coverage of § 602(a)(1) in that fashion, it could have done so.

2. The legislative history of § 602(a)(1) strongly reinforces the conclusion that the provision was intended to protect the right to domestic distribution granted in § 106(3) by prohibiting importation of legitimate copies without authorization from the owners of the copyright. From its inception, it was understood that "what was at issue" in the draft

provisions leading up to § 602(a)(1) was a copyright owner's ability "to grant a U.S. distributor an exclusive right to distribute copies of the work in the United States." 4 William F. Patry, *Patry on Copyright* § 13:42, at 13-89 (2010).

In legislative deliberations leading up to the adoption of the 1976 Copyright Act, the Copyright Office explained that the new provision would address foreign copies that, although lawfully made for distribution abroad, "if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States." Staff of H. Comm. on the Judiciary, 88th Cong., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 203 (Comm. Print 1964). The Register of Copyrights clearly distinguished between the prohibition on importation of "piratical" copies in proposed § 602(b) – which would reach any "unauthorized edition" made abroad – from "importation for infringing distribution," *i.e.*, where "copies . . . were lawfully made but their distribution *in the United States* would violate the exclusive rights of the U.S. copyright owner." Staff of H. Comm. on the Judiciary, 89th Cong., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 149-50 (Comm. Print 1965) (emphasis added). The Register stated specifically that the new provision would apply, for example, where "the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." *Id.* at 150.

The House Report likewise explains that "Section 602 . . . deals with two *separate* situations: importa-

tion of 'piratical' article[s] (that is, copies . . . made without any authorization of the copyright owner), and unauthorized importation of *copies . . . that were lawfully made*." H.R. Rep. No. 94-1476, at 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785 (emphases added).

3. Costco does not contest that § 602(a)(1) applies to legitimate copies in some circumstances, *see* Costco Br. 38-40, but it fails to acknowledge the importance of its concession. The fact that Congress barred importation of legitimate copies of a work protected by U.S. copyright establishes that Congress *intended* to permit the use of copyright to enforce the allocation of national markets among various rights holders. *See* 4 *Patry on Copyright* §§ 13:42, 13:44, at 13-88 to 13-89, 13-96.[9] That decision is self-evidently within Congress's power; furthermore, that policy choice (as discussed below) makes perfect sense in light of the constitutional purpose of copyright protection – to promote creative work by securing the reward of such work to its author. *See infra* Part III.A.

Costco argues that "the Act does not empower [a] copyright holder to divide markets." Costco Br. 24. But the uncontested fact that § 602(a)(1) applies to legitimate copies means that the Copyright Act

[9] The 1961 report of the Register of Copyrights initially recommended against enforcement of "agreements to divide international markets" under the Copyright Act. *Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* X-24 (July 1961). This history reinforces the conclusion that the choice to permit the use of copyright to protect domestic distribution rights against parallel imports was a deliberate one.

empowers copyright owners to do exactly that – as Congress intended.

D. The Ninth Circuit's Judgment Is Consistent with Traditional Exhaustion Principles

As the Court made clear in *Quality King*, the scope of any first-sale defense is governed "not by judicial interpretation, but by an express statutory provision." 523 U.S. at 142. Nevertheless, the conclusion that a copyright owner does not forfeit his exclusive domestic distribution right with respect to foreign-made copies made and sold for distribution abroad also is consistent with the history and policy underlying the first-sale doctrine.

Congress first adopted a statutory first-sale defense as part of the Copyright Act of 1909 to codify the holding of *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). The Court there held that the statutory right to "vend" did not entail the right to impose, under the copyright statutes, restrictions on the terms under which downstream purchasers would be permitted to resell copies they acquired free of any contractual restrictions. Central to the Court's holding was its determination that the copyright owner had, by selling the copies at issue in the United States, "*exercised* the right to vend." *Id.* at 351 (emphasis added). The case thus reflects the notion that, "once the copyright owner first sells a copy of the work, his right to control its further distribution is exhausted." 2 *Nimmer on Copyright* § 8.12[B][1][a], at 8-157.

The justification for the first-sale doctrine is that a copyright owner can, in general, realize the full value of his intellectual property rights upon an initial authorized sale. *See Bobbs-Merrill*, 210 U.S. at 351

("The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it."); 2 *Goldstein on Copyright* §§ 7.6.1.1.b, 7.6.1.2.a, at 7:134, 7:141; *cf. United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942) ("The reward [the patentee] has demanded and received is for the article and the invention which it embodies and which his vendee is to practice upon it.").[10] To the

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[10] A U.S. patent owner does not exhaust its right to exclude others from the use of its invention by making and selling an article under a foreign patent. Costco twice cites *LG Electronics, Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036 (N.D. Cal. 2009), for the proposition that authorized foreign sales necessarily satisfy exhaustion without acknowledging that the case is bad law: the Federal Circuit (whose law governs this question) has recently reconfirmed that a sale by a patent owner under the law of a foreign country does not exhaust the patent owner's rights to prevent infringing use (including importation) of the article sold. *See Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (per curiam). *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008), is in no way inconsistent: that case involved an authorized sale by a licensee under the U.S. patent, not a foreign sale governed by foreign patent law. *See id.* at 2114 (describing broad license under U.S. patent).

Furthermore, *amicus* Intel Corp. is wrong that there is any inconsistency between the current rule and traditional patent exhaustion doctrine. In fact, it long has been settled (as the defendant-appellee in *Bobbs-Merrill* squarely conceded) that the owner "both of foreign and domestic patents for a particular invention" may "sell goods under the patent of a foreign country and reserve to himself the right to sell under the United States letters patent." Brief for Appellee at 36, *Bobbs-Merrill Co. v. Straus*, No. 176 (U.S. filed Jan. 18, 1908) (citing *Dickerson v. Tinling*, 84 F. 192 (8th Cir. 1897); *Dickerson v. Matheson*, 57 F. 524 (2d Cir. 1893)); *see also Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71, 79 (2d Cir. 1920) ("[I]f the aeroplanes which are alleged to infringe had been built in Canada under a limited license, or under a Canadian patent, and then brought into the United States, infringement would

extent that a copyright owner is able to realize the full value of the intellectual property on first sale, there is less justification, at least for purposes of securing to the copyright owner the reward for his work, for allowing a copyright holder to restrict the terms of subsequent sales of the copy at issue.

Here, by making copies of its copyrighted work in Switzerland, Omega exercised none of its rights under the Copyright Act and thus could not exhaust them. Furthermore, when a copy is sold subject to the restriction that it is not authorized for importation and distribution in the United States, the copyright owner has not bargained for or received compensation for the value of U.S. rights. *See* Richard A. Epstein, *Notice and Freedom of Contract in the Law of Servitudes*, 55 S. Cal. L. Rev. 1353, 1360 (1982).[11] To the contrary, where such exclusive rights are granted to someone else (or exercised by the copyright owner itself), "competition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies . . . that it sells." 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141; *see also Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006) ("Under Section 602(a)[(1)], Swatch had the right to prevent these products from entering the United States and competing with the identical products authorized to be distributed here.").

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have been made out."); *see also* Intel Br. 10 (acknowledging that "a patentee may impose otherwise lawful contractual limitations at the time of sale").

[11] *Amici* eBay Inc. *et al.* ignore the distinction between being "paid" for "goods," Br. 5, and being compensated for the value of intellectual property rights granted.

Furthermore, there is nothing inconsistent with long-standing copyright principles about using a U.S. copyright to enforce the division of international markets among distributors of a work. As long ago as 1879, the writer of the leading treatise – extensively relied on by the Court in *Bobbs-Merrill* – observed:

> [A]n American author, who on certain conditions can secure a copyright for his work both in the United States and in England, may make a valid assignment of the English copyright to one person, and either himself retain or assign to another the American copyright. . . . [I]n such case there is no division of copyright. The copyright granted by one government is wholly distinct from that conferred by another. When protection is secured for the same work in different countries, there is a separate and independent copyright *for each country*.

Eaton S. Drone, *A Treatise on the Law of Property in Intellectual Productions in Great Britain and the United States* 336 (1879) (emphasis added).

E. The Ninth Circuit's Conclusion That § 109(a) Applies to Copies Sold in the United States with the Copyright Owner's Authorization Is Compatible with the Statutory Text

Costco argues throughout its brief that limiting the first-sale defense strictly to copies made in the United States leads to results in hypothetical cases that Congress would not have intended. Specifically, Costco argues that under the decision below U.S. copyright holders could avoid the first-sale doctrine

altogether simply by manufacturing copies abroad before selling them in the United States.

These arguments all depend on the claim that the Ninth Circuit held that the phrase "lawfully made under this title" is "*synonymous with* 'lawfully made in the United States.'" Costco Br. 15 (emphasis added); *see id.* at 11. That is not what the Ninth Circuit held. As noted above, the lower court's holding addressed exclusively copies made by a U.S. copyright owner abroad and sold without authorization to import or distribute the copies in the United States. *See supra* note 4. That holding does not resolve the question whether copies manufactured abroad might, in other circumstances, be "lawfully made under this title" and therefore subject to § 109(a).

The Ninth Circuit did not hold that a copyright owner who has reproduced or authorized reproduction of a copy of a work in a foreign jurisdiction and *also* has authorized the U.S. sale of that copy (which Omega never did here) could later defeat a first-sale defense by arguing that the copy was not "lawfully made under this title." To the contrary, Ninth Circuit law makes clear that, whenever a copyright owner has exercised its right to reproduce *or to distribute* copies in the United States, § 109(a) applies. Referring to its prior decisions in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996), the Ninth Circuit noted that "parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred." Pet. App. 16a.

That construction of § 109(a) is consistent with the statutory text and with the explication of that statutory text given above. Section 109(a) applies to

"a particular copy or phonorecord lawfully *made* under this title." 17 U.S.C. § 109(a) (emphasis added). The term "made" does not correspond to any of the specific rights enumerated under § 106; there is no exclusive right to "make" a copy or phonorecord. There accordingly is no reason to understand "lawfully made under this title" as being limited to "lawfully *reproduced* under this title." *See id.* § 106(1). Rather, a copy can be "lawfully made under this title" for purposes of the first-sale doctrine because it carries with it – by virtue of the rights granted to the manufacturer or distributor by the copyright owner, for example – a license under the Copyright Act to be distributed in the United States.[12] Such a license can be granted irrespective of where the copies are reproduced. And such a license *to distribute* necessarily implicates the rights granted under the Act – again, wherever the manufacturing process takes place. *See id.* § 106(3) (giving a copyright owner the right to authorize distribution). Accordingly, that reading of § 109(a) also is consistent with the rationale of *Bobbs-Merrill*: the owner of the exclusive U.S. distribution right has "exercised" that right with respect to the particular copy. 210 U.S. at 351.[13]

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[12] This reading makes particular sense because the first-sale doctrine provides a qualification on the right to distribute copies, not on the right to reproduce copies. *See* 2 *Nimmer on Copyright* § 8.12[A], at 8-154.

[13] An author could grant a single manufacturer worldwide distribution rights under the copyright laws of various countries. In that case, the copies could well be made under both U.S. copyright law (because the copies are lawfully made for distribution in the United States) and the copyright law of other countries as well. Contrary to Costco's contention (at 35), neither Omega nor the court below ever has suggested that the "concepts of being lawfully made 'under the law of some

Costco's claim (at 53) that the Ninth Circuit's understanding that the first-sale doctrine applies to copies that are lawfully sold in the United States is "atextual" reflects Costco's failure to distinguish between the tangible copy and the intangible intellectual property rights that are governed by the Copyright Act. *See* 17 U.S.C. § 202 ("Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied."). There is no linguistic obstacle to the conclusion that a copy can be "lawfully made under this title" for purposes of the first-sale doctrine because that copy carries with it authorization for sale in the United States by virtue of the copyright owner's affirmative exercise of exclusive rights.[14]

At the same time, when a licensee makes a copy overseas, the author also may *withhold* authorization to distribute the copy in the United States – as this Court noted in *Quality King*. *See supra* pp. 19-20. Such a copy does not carry with it the legal authority to distribute the copy in the United States and therefore is not "lawfully made under this title." Likewise,

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other country' and being 'lawfully made under this title' are . . . mutually exclusive."

[14] *Amici* Entertainment Merchants Association *et al.* argue (at 21-23) that the Ninth Circuit declined to recognize the distinction between a copyrighted object and the exclusive rights under the copyright. In fact, it is *amici* that claim that the law permits no distinction between the physical copy of a copyrighted work and the copyright owner's intellectual property, by failing to recognize the undisputed fact that a legitimate copy may embody a copyrighted work yet not be authorized for lawful distribution in the United States. That is true even though the copy may be physically indistinguishable from a copy that has been authorized for domestic distribution.

when a copyright owner reproduces a copy in Switzerland, it has not (yet) exercised any rights under the Copyright Act; if it then sells the copy without authorization to import or distribute it in the United States, it still has not exercised any rights, and the copy is not, in any sense, "lawfully made under this title."

In any event, Costco's criticisms overlook the fact that its own interpretation of the statute produces precisely the same (supposed) textual difficulty. As set forth in more detail below, *see infra* pp. 38-39, Costco acknowledges that a copyright owner could (by transferring foreign copyrights to a third party) create a situation in which copies of a work are lawfully reproduced under foreign law but not under the Copyright Act. The U.S. copyright owner could, after the copies were reproduced, authorize domestic distribution of those foreign-made copies. We submit that such copies – once authorization to distribute in the United States is granted – are "lawfully made under this title." Costco by contrast would be compelled to take the position that the first-sale defense never would apply to such copies even if distribution in the United States is later authorized by the U.S. copyright owner.

II. COSTCO'S PROPOSED CONSTRUCTION OF THE STATUTE – WHICH WOULD BAR UNAUTHORIZED IMPORTATION ONLY OF COPIES MADE OR AUTHORIZED BY UNRELATED FOREIGN COPYRIGHT HOLDERS – CONFLICTS WITH THE COPYRIGHT ACT

Costco now argues that legitimate copies made abroad are subject to § 602(a)(1) – notwithstanding § 109(a) – if they are "made and sold abroad *by un-*

related foreign copyright holders" and imported into the United States without the authority of the U.S. copyright owner. Costco Br. 39.

This construction represents a sharp departure from the construction of the statute that Costco advocated in its petition. There, Costco squarely argued that a copy made abroad by a *licensee* under a foreign copyright – in a case where the license was granted by the U.S. copyright owner – would not be "lawfully made under this title" for the correct reason that such a license would not involve the exercise by the U.S. copyright holder of any rights granted under the Copyright Act. *See* Pet. 14. But that construction of the statute, as discussed above, creates an untenable distinction between copies that a copyright owner makes itself and copies that the copyright owner authorizes another to make. *See supra* pp. 23-24. Presumably for that reason – and despite the fact that, as Costco previously acknowledged, the licensee example is central to the Court's analysis in *Quality King* – Costco now abandons that distinction.

Instead, Costco now insists that § 602(a)(1) applies only in the case where there are separate and unrelated entities holding any U.S. copyright, on the one hand, and any relevant foreign copyright, on the other. As noted above, under U.S. and foreign law, the initial owner of a copyright is the author of the work.[15] Unrelated entities generally would hold copyrights on the same work only in cases where ownership of one or more of the relevant copyright or copyrights were transferred. Under Costco's current reading, then, a transferee who obtained foreign

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[15] *See* 17 U.S.C. § 201(a); *see also, e.g.*, Berne Convention art. 2(6)

rights from a U.S. copyright owner could make and sell copies abroad that would be subject to infringing importation under § 602(a)(1) but not the first-sale defense of § 109(a).[16]

That construction of the statute contradicts the structure of the Copyright Act; it makes substantive rights turn on meaningless formalities; it depends on the assertion, which is directly contrary to *Quality King*, that a copy lawfully reproduced in the United States is nevertheless not "lawfully made under this title"; and it eliminates any policy basis for Costco's proposed reading of § 109(a).

First, just as the Copyright Act recognizes the essential equivalence, as a matter of the exclusive rights a copyright owner enjoys, between *doing* and *authorizing*, the Copyright Act expressly establishes the equivalence of granting an exclusive license and transferring ownership of exclusive rights. Section 101 of the Act defines a "transfer of copyright ownership" to include "an assignment, . . . exclusive license, or any other conveyance . . . of a copyright or of any of the exclusive rights comprised in a copyright." 17 U.S.C. § 101; *see also id.* § 203(a) (providing for termination (under certain conditions) of "the exclusive or nonexclusive grant of a *transfer or license of copyright or of any right under a copyright*") (emphasis added). Moreover, the Act makes clear that a copyright owner is free to divide up its exclusive rights in whatever manner it chooses. *See id.* § 201(d)(2) ("Any of the exclusive rights comprised in a copyright, including any subdivision of any of the

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[16] Alternatively, the copyright owner could transfer the U.S. copyright to a separate entity and continue to make and sell copies abroad that could not be imported without authorization of the U.S. rights holder.

rights specified by section 106, may be transferred . . . and owned separately."); *see Faulkner v. National Geographic Enters. Inc.*, 409 F.3d 26, 39 (2d Cir. 2005) (citing *Tasini v. New York Times Co.*, 972 F. Supp. 804, 815-16 (S.D.N.Y. 1997) (Sotomayor, J.), *rev'd on other grounds*, 206 F.3d 161 (2d Cir. 1999), *aff'd*, 533 U.S. 483 (2001)).[17] It conflicts with the basic structure of the Act to draw any distinction between the rights of a copyright owner depending on whether it has granted an exclusive license (perhaps for a limited time) or transferred rights by assignment, yet that appears to be Costco's position.[18]

Second, like the position Costco staked out in its petition (but has now abandoned), Costco's new position would elevate form over substance by making substantive rights turn on meaningless distinctions of title. Costco concedes that, if a U.S. copyright owner transfers ownership of the foreign copyright to a work, it could sue the seller of a copy of the work

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[17] Does anyone really believe that one single allocation of rights to produce and use works best for movies, records, books, architectural plans, photographs, software, and so on? The domain of copyright is vast. The most anyone can hope for in a law is to create a framework – that is, to endow authors with a set of property rights – and let people work out the details for themselves. This is of course the fundamental point in Ronald Coase's essay The Problem of Social Cost, nicely amplified by Calabresi and Melamed in Liability Rules and Property Rules.

Frank H. Easterbrook, *Contract and Copyright*, 42 Hous. L. Rev. 953, 961 (2005).

[18] *See generally* Alice Haemmerli, *Why Doctrine Matters: Patent and Copyright Licensing and the Meaning of Ownership in Federal Context*, 30 Colum. J.L. & Arts 1, 7-20 (2006).

published overseas and imported without authorization. *See* Costco Br. 39. But it claims that, if the same copyright owner instead maintains ownership of the foreign rights (or transfers ownership to an insufficiently "unrelated" entity), it loses the protection of § 602(a)(1). There is no reason of law or policy for drawing such a distinction in the face of the Copyright Act's broad definition of copyright ownership and its express recognition of the power of copyright owners to subdivide their exclusive rights.

Third, Costco's reading depends on the claim that "works made by the holder of British distribution rights would [not] be subject to the first-sale doctrine if those works were printed in the United States." Costco Br. 37. But, because a U.S. copyright owner has the exclusive right to reproduce copies of a work in the United States, the owner of a foreign copyright could *not* authorize reproduction of copies of a work subject to U.S. copyright in the United States, even if for distribution overseas. *See* 17 U.S.C. § 106(1). If the manufacturer did have a right to reproduce copies in the United States, they unquestionably would be "lawfully made under this title," as *Quality King* makes clear. *See* 523 U.S. at 143.

Fourth, because Costco ultimately is forced to admit that Congress has authorized U.S. copyright owners to use the exclusive rights granted under § 106(3) and § 602(a)(1) to prevent importation of genuine copies, all of the supposed policy arguments that Costco and its *amici* muster are a sham. Even under their reading of the statute, a U.S. copyright owner, as long as it structures the transactions correctly, always will be able to ensure that copies manufactured abroad cannot be lawfully imported without authorization. Costco's rule thus could

increase transaction costs – by requiring authors and other copyright owners to create increasingly complicated contractual arrangements to preserve the enforcement rights granted under § 602(a)(1) – and would create traps for the unwary or unsophisticated author or publisher. It also would create enormous uncertainty as a result of Costco's atextual improvisation. But it would not alter the fact that § 602(a)(1) ultimately is available to protect exclusive domestic distribution rights against unauthorized imports.[19]

III. SOUND POLICY CONSIDERATIONS SUPPORT THE CONGRESSIONAL JUDGMENT TO PROTECT DOMESTIC DISTRIBUTORS FROM UNAUTHORIZED IMPORTS

A. The Market Segmentation Authorized by Congress Benefits Consumers and Meaningfully Benefits Copyright Owners

There are many legitimate reasons that the owner of a copyright may wish to prevent copies made for sale in one country from entering the United States to compete with copies made for domestic distribution. Companies routinely sell their products in different markets at different prices to reflect varying demand conditions and product distribution strategies. *See generally* William J. Baumol & Daniel G. Swanson, *The New Economy and Ubiquitous Compet-*

[19] "Should it make a difference whether the copyrighted goods were manufactured by the U.S. copyright holder itself, rather than by a licensee of the copyright holder? . . . [S]uch a result would be unfortunate. For it would engender further uncertainty into this difficult area by having importation rights turn on the precise legal relationships among manufacturers, middlemen and distributors." 2 *Nimmer on Copyright* § 8.12[B][6][b], at 8-178.4(2); *see* ABA Recommendation at 6.

itive Price Discrimination: Identifying Defensible Criteria of Market Power, 70 Antitrust L.J. 661, 665 (2003). Such market segmentation brings important benefits to both consumers and producers, particularly with respect to goods that have a significant intellectual property component.[20] For example, international market segmentation preserves incentives for location-specific investments in product promotion and distribution by preventing free-riding. *See Business Elecs. Corp. v. Sharp Elecs. Corp.*, 485 U.S. 717, 731 (1988) (explaining that price-cutting that depends on "free riding" on services provided by other dealers may not benefit consumers).[21]

Furthermore, market segmentation allows for more efficient exploitation of intellectual property rights by allowing rights holders to authorize distribution in lower-priced markets without undercutting the value of distribution rights in markets with less elastic demand.[22] Such price discrimination enhances

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[20] *See generally* Robert D. Anderson *et al.*, *Intellectual Property Rights and International Market Segmentation in the North American Free Trade Area*, *in Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* 397 (Robert D. Anderson & Nancy T. Gallini eds., 2007).

[21] "If a distributor cannot realize the full benefits of its investment (because of parallel imports . . .), it has an incentive to reduce its investment, and the value of the manufacturer's product is not enhanced." *Id.* at 402. "Without market segmentation, . . . the domestic consumer would not receive the same level of product quality and variety, service, and information that would prevail under market segmentation." *Id.*

[22] *See John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 WL 3364037, at *8 (S.D.N.Y. Oct. 19, 2009); Shanker A. Singham, *Competition Policy and Stimulation of Innovation: TRIPS and the Interface Between Competition and Patent Protection in the Pharmaceutical Industry*, 26 Brooklyn J. Int'l L. 363, 407 (2000).

the value of a creator's U.S. copyright (and enhances the welfare of consumers in lower-priced markets).

The purpose of copyright (and patent) law is to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. Congress made the quite reasonable judgment that protecting the value of U.S. distribution rights would help to promote creative efforts – benefiting all consumers. That is a judgment entirely within Congress's power to make. *See Eldred*, 537 U.S. at 207 n.15; *see also Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984) (noting that courts are deferential to Congress's judgment regarding copyright).[23]

B. After Nearly Three Decades, There Is No Evidence That the Rule Reaffirmed by the Ninth Circuit Has Caused Any Adverse Consequences

Costco (at 46-52) and its *amici* predict adverse consequences from the application of § 602(a)(1) and § 109(a) according to their terms. In particular, they warn that the Ninth Circuit's decision invites copyright owners to place restrictions on resale of copies despite having authorized distribution of those copies in the United States; they also argue that, to take advantage of this expanded distribution right, copyright holders will shift manufacture overseas. Their

[23] For purposes of this Court's analysis, it does not matter whether the original artwork engraved on Omega's watches has a great "creative component" or a more "limited" one. *Quality King*, 523 U.S. at 140. "[O]ur interpretation of the relevant statutory provisions would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books." *Id.*

claims are without any empirical basis and contrary to common sense.[24]

Virtually all of the policy arguments are based on the assertion that, under the decision below, the first-sale doctrine would not apply to copies that were imported and distributed *with* the authorization of the copyright owner. But that is not the case: the Ninth Circuit reaffirmed that a copy that is sold domestically with the copyright owner's authorization is subject to § 109(a), *see* Pet. App. 16a, and that conclusion is fully consistent with the Ninth Circuit's reading of the statutory text. *See supra* pp. 33-36.

More broadly, the arguments of Costco and its *amici* ignore the fact that the rule applied by the Ninth Circuit below has been prevailing law for more than a quarter century – that is, since the district court's decision in *Scorpio*, which was followed nearly unanimously both before and after this Court decided *Quality King*. *See supra* note 8. If the Ninth Circuit's interpretation of the Copyright Act invited bad consequences, they would have arrived long ago. But the supposed problem of assertion of exclusive distribution rights against downstream purchasers of copies that were lawfully sold in the United States simply does not exist. We are aware of no reported case (at least since *Bobbs-Merrill*) in which a copyright owner sought to enforce restrictions on resale of a copy sold pursuant to the copyright owner's acknowledged authorization, and Costco cites none. More revealing: *amici* represent thousands of businesses, owning hundreds of thousands of retail loca-

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[24] Moreover, as noted above, *see supra* pp. 41-42, the same supposed "Troubling Implications," Costco Br. 46, arise under Costco's interpretation of the Copyright Act.

tions, and include some of the most powerful corporate interests in America. If any copyright owner had asserted the right to control resale of a copy that was sold in the United States pursuant to the copyright owner's authorization, *amici* would be aware of it. *Amici* offer neither any evidence that such a thing has occurred in the past nor any plausible scenario in which it might occur in the future. *See also* U.S. Cert. Br. 19 (noting that Costco "cites no case in which a copyright owner has sought to extract royalties at multiple stages of an otherwise lawful distribution chain within the United States").

The claim that the Ninth Circuit's decision will provide an incentive to shift manufacturing overseas likewise is unfounded. As noted, the rule reaffirmed by the Ninth Circuit has been settled law for more than 25 years. *See id.* ("[T]he phrase 'lawfully made under this title' in Section 109(a) has been understood for a quarter-century to exclude foreign-made copies."). Yet petitioners cannot cite a single example of manufacturing operations that have been moved overseas to take advantage of the protection provided under § 602(a)(1).[25]

Costco also warns that libraries may be unable to lend foreign-language books; that travelers that take advantage of the "suitcase exemption" in § 602(a)(3) may commit copyright infringement by making a gift of a foreign edition; and that neighborhood garage sales will become things of the past. Costco Br. 51.

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[25] Indeed, Costco argues (at 50) that merchants may shun copyrighted goods manufactured abroad out of concern that such goods may have been imported without the copyright owner's authorization. One could just as plausibly argue that such concerns will lead manufacturers of copyrighted goods to move their operations *into* the United States.

Some of these hypotheticals depend on extending or distorting the Ninth Circuit's holding, but all of them are just that – hypothetical. The law has stood much where the Ninth Circuit left it for nearly 30 years. None of these phenomena exists. If they did, Congress could (if it wished) address them through legislation.

It is perfectly legitimate for Costco to address to Congress its disagreement with the congressional decision to authorize U.S. copyright owners to block unauthorized imports. It is not legitimate to ask, as it does in this case, for judicial repeal of § 602(a)(1).

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

JESS M. COLLEN
THOMAS P. GULICK
MATTHEW C. WAGNER
COLLEN IP
The Holyoke-Manhattan Building
80 South Highland Avenue
Ossining, New York 10562
(914) 941-5668

MICHAEL K. KELLOGG
Counsel of Record
AARON M. PANNER
KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C.
1615 M Street, N.W.
Suite 400
Washington, D.C. 20036
(202) 326-7900
(mkellogg@khhte.com)

Counsel for Respondent

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REPLY BRIEF

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COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

REPLY BRIEF FOR THE PETITIONER

NORMAN H. LEVINE
AARON J. MOSS
GREENBERG GLUSKER FIELDS CLAMAN & MACHTINGER LLP
1900 Ave. of the Stars
Los Angeles, CA 90067
(310) 553-3610

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500
renglert@robbinsrussell.com

Counsel for Petitioner

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REPLY BRIEF FOR THE PETITIONER

In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), the copyright owner and the United States urged this Court to hold the first-sale doctrine, 17 U.S.C. § 109(a), inapplicable to imported copies meant for sale abroad. They argued that Congress, in 17 U.S.C. § 602(a), provided copyright holders the right to divide geographic markets for their goods. This Court disagreed, emphasizing "the clarity of the [statutory] text." 523 U.S. at 145. Read together with § 109(a), "the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L'anza's products who decide to import them and resell them in the United States." *Ibid.*

Now Omega and the United States again urge this Court to hold the first-sale doctrine inapplicable to imported copies meant for sale abroad. Repeating arguments about the supposed purpose of § 602(a), they contend that the first-sale doctrine, which applies to all copies "lawfully made under this title," does not cover Omega watches made in Switzerland. Holding otherwise, they argue, would judicially repeal § 602(a)(1). Resp. Br. 47.

The language of the Copyright Act, however, does not support the outcome Omega and the United States urge. Each proffers its own, conflicting definition of the phrase "lawfully made under this title," neither of which is tenable. The United States, following the court below in this aspect, believes that "lawfully made under this title" refers only to "copies created in the United States" (U.S. Br. 17), a construction that creates absurdity where the phrase "lawfully made under this title" is used elsewhere in the Copyright Act. Omega, in contrast, believes that the phrase includes copies that are "reproduced

abroad but nevertheless [are] 'lawfully made' because they carry authorization under U.S. law for lawful distribution in the United States." Resp. Br. 16 n.4. The tortured nature of that construction is self-evident.

Besides being disconnected from the ordinary meaning of the operative phrase, neither construction finds any support in the legislative history of § 602(a), let alone the more important legislative history of § 109(a), which neither Omega nor the United States addresses. And both leave unanswered the most obvious question: Why would Congress allow restraints on alienation and territorial restrictions for goods made abroad but not U.S.-made goods?

Costco's construction raises none of those problems. It gives meaning to the statutory text, is faithful to the history and purpose of the first-sale doctrine, and preserves for § 602(a) the purpose that Congress intended.

I. THE FIRST-SALE DOCTRINE DOES NOT TURN ON WHERE A COPY IS MADE

A. The Ninth Circuit's Holding That "Lawfully Made Under This Title" Means "Made In The United States" Conflicts With The Text and History Of The First-Sale Doctrine

The Ninth Circuit's "general rule" is that "§ 109(a) can provide a defense against §§ 106(3) and 602(a) claims only insofar as the claims involve domestically made copies of U.S.-copyrighted works." Pet App. 7a; accord U.S. Br. 17. That construction introduces into the Copyright Act tensions with which the Ninth Circuit made no attempt to grapple.

See Pet. Br. 17-21. The United States makes no reasonable attempt either.

1. Equating "lawfully made under this title" with "made in the United States" renders absurd other sections of the Copyright Act that use that language. Costco's opening brief offered two examples. See also AIPLA Br. 25 (additional example).

(i) Under the Ninth Circuit's formulation, educators who knowingly use copies of genuine musical performances or instructional videos made abroad would be liable for copyright infringement because the safe harbor created by 17 U.S.C. § 110 applies only to the performance or display of copies "lawfully made under this title." The United States claims that such a result – allowing a teacher to be liable for showing in class a *lawfully purchased* foreign-made film – "would not be irrational" and that the section's "scienter requirement reduces the danger of over-expansive liability." U.S. Br. 25. It is not rational, however, to hold a teacher liable for copyright infringement just because she *knows* the lawfully purchased film she shows in class was made abroad.

The United States retreats to arguing that "the phrase 'lawfully made under this title' need not have the same meaning throughout Title 17." U.S. Br. 23. It is true that the "presumption that the same * * * term in different provisions of the same statute must 'be interpreted identically'" is rebuttable, *Environmental Defense* v. *Duke Energy Corp.*, 549 U.S. 561, 575-576 (2007), but the United States offers no convincing rebuttal here, where the phrase is used in adjoining sections enacted contemporaneously. "Context counts." *Id.* at 576.

The United States claims that the need to read the phrase differently in § 109 and § 110 is "strongly indicate[d]" by § 602(a), though it does not elaborate on that assertion. U.S. Br. 23. This is a notable flaw because, as explained previously (Pet. Br. 33-40) and further below (*infra* pp. 16-19), Costco's construction of § 109 and § 602(a) gives each provision significant effect without any need to read "lawfully made under this title" differently in § 109 and § 110.[1]

(ii) Section 1006(a)(1) of the Audio Home Recording Act ("AHRA") provides for the payment of royalties by blank-media manufacturers to "any interested copyright party whose musical work or sound recording has been embodied in a * * * musical recording lawfully made under this title that has been distributed." The Ninth Circuit's interpretation would compensate U.S. copyright owners *only* if their work was first recorded in the United States. The United States professes to see no absurdity in that result (U.S. Br. 25), apparently believing (the works of the London Symphony Orchestra or The Rolling Stones notwithstanding) that consumers use blank media only to duplicate U.S.-copyrighted music that happened to be first recorded in the United States.[2] But the Copyright Office takes the position that U.S.

[1] Omega takes a different approach, denying the absurdity of the Ninth Circuit's construction by claiming that educators would be liable only for using copies "imported in violation of § 602(a)(1)." Resp. Br. 17. But that is not what § 110 provides; it neither contains a cross-reference to § 602(a) nor otherwise mentions importation.

[2] Omega again differs with the United States, asserting instead that the AHRA mandates payment only "where domestic distribution [of the copy at issue] is authorized by the copyright owner." Resp. Br. 18. As with § 110, however, Omega's proposed construction of § 1006 has no textual basis.

copyright holders are entitled to royalties for any work "lawfully made and distributed" (http://www.copyright.gov/carp/dartfact.html), whether or not that work was first recorded in the United States, a point the United States declines to acknowledge.

Costco's reading of "lawfully made under this title," in contrast, creates no absurdity in these sections of the Copyright Act (or any other). If the copies at issue are lawfully made according to Title 17, educators can use them and AHRA claimants will be compensated for them, wherever those copies were made.

2. The Ninth Circuit's construction also fails to recognize that, as the United States argued in *Quality King*, "[w]hen * * * Congress wishes to make the location of manufacture relevant to Copyright Act protection, it does so expressly" – as it did in § 601 and § 1004, for example. U.S. *Quality King* Br. 30; see also Pet. Br. 18-19. Omega ignores this argument, and the United States tries to change the subject. The United States argues that, if Congress had *Costco's* construction in mind, "it could have used the same counterfactual formulation that it used in Section 602(a)(2) and (b)," *i.e.*, "if this title had been applicable." U.S. Br. 26. Given the clear use of "lawfully made under this title" to cover foreign-made goods in § 110 and § 1006, and the use of a *different* phrase to make location of manufacture relevant, it is of no moment that Congress did not repeat in § 109 another formulation employed elsewhere in the Copyright Act for a different purpose.

3. The flaws in the Ninth Circuit's holding that "lawfully made under this title" means "made in the United States" extend beyond statutory text. That

construction is mentioned nowhere in the voluminous legislative history of the Copyright Act of 1976. See Pet. Br. 20-23; see also *Harrison* v. *PPG Indus., Inc.*, 446 U.S. 578, 596, 602 (1980) (Rehnquist, J., dissenting) (discussing Arthur Conan Doyle, *The Silver Blaze*, in THE COMPLETE SHERLOCK HOLMES 397, 400 (1936)). The Ninth Circuit's construction also is notably inconsistent with earlier codifications of the doctrine, which characterized the relevant inquiry as whether the copy at issue "has been lawfully obtained," without regard to location. Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660 (codifying and amending Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084). See also EMA Br. 20-25 (further discussing evolution of doctrine from former Section 41). The first-sale doctrine continues to reflect the common law's aversion to restraints on alienation. If Congress intended an exception for goods made abroad, it would not have codified that exception by adding the words "lawfully made under this title" to § 109 without any comment in the legislative history.

B. Omega's Assertion That A Copy Made Overseas Can Be Rendered "Lawfully Made Under This Title" Through Distribution Rights Later Associated With The Copy Is Untenable

Omega seeks shelter in what the Ninth Circuit has consistently characterized as "an exception" to its general rule whereby "§ 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here." Pet. App. 9a; see also *id.* at 17a ("We need not decide whether *Drug Emporium*'s and *Denbicare*'s exception to the rule in *BMG Music* also survives *Quality King*."). Omega transforms that exception into a new rule of its own

whereby "copies may be reproduced abroad but nevertheless be 'lawfully made' because they carry authorization under U.S. law for lawful distribution in the United States." Resp. Br. 16 n.4.

That rule lacks any relation to the text of the codified first-sale doctrine. On their face, the words "lawfully *made* under this title" have nothing to do with *distribution or importation*, authorized or not. Undaunted, Omega argues that, because "[t]he term 'made' does not correspond to any of the specific rights enumerated under § 106," there "is no reason to understand 'lawfully made under this title' as being limited to 'lawfully *reproduced* under this title.'" Resp. Br. 35. "Rather," Omega asserts, "a copy can be 'lawfully *made* under this title' for purposes of the first-sale doctrine because it carries with it * * * a license under the Copyright Act to be *distributed* in the United States." *Ibid.* (emphasis added). According to Omega, the necessary authorization can be granted at any time, even years after the copy has been transferred to other parties. Resp. Br. 37.

The word "made," however, has a commonly accepted, ordinary meaning that has nothing to do with distribution. The word connotes the act of "caus[ing] (something) to exist." BLACK'S LAW DICTIONARY 975 (8th ed. 2004) (defining "make"). See also OXFORD ENGLISH DICTIONARY 1700 ("To produce (a material thing) by combination of parts, or by giving a certain form to a portion of matter; to construct, frame, fashion") (compact ed. 1971); MERRIAM-WEBSTER'S DICTIONARY ("to bring into being by forming, shaping, or altering material") (online ed. 2010). Consistent with that ordinary meaning, Costco's construction of "lawfully made under this title" turns on *who* brings the copy at issue into existence, and that of the Ninth Circuit and the United States, though erroneous, at

least turns on *where* that copy is brought into existence. Omega's novel construction, in contrast, turns on matters *other than* the circumstances in which the copy was created.

Moreover, by interpreting "made" to incorporate concepts of authorization to distribute, Omega's construction would make mincemeat of numerous provisions of the Copyright Act in which the words "make" or "made" and "distribute" or "distribution" carry their ordinary meanings. *E.g.*, 17 U.S.C. § 115(a)(1) (setting out conditions by which one may "obtain a compulsory license to make and distribute phonorecords of [a] work"); *id.* § 1308 (with respect to specified original designs, granting owner exclusive rights to "(1) make, have made, or import * * * any useful article embodying that design" and "(2) sell or distribute for sale" such an article).

Relatedly, Omega's conception of how a good is "made" suffers from fatal problems of practicability. How does a copy itself come to "carr[y]" the requisite "license under the Copyright Act to be distributed in the United States"? Resp. Br. 35. If a U.S. copyright holder manufactures copies abroad, are those copies assumed to be licensed for distribution in the United States or not? Is that question to be answered based on the rights-holder's intent? Intent at the time of manufacture, or at any time? How is the license supposedly attached to certain copies manifested, particularly if the copyright holder retains all rights (*i.e.*, there are no licensees)? Can the authorization be implied? If so, does affixing a U.S.-copyrighted design to the back of a watch imply authorization, or its absence? It stretches credulity to believe that Congress intended to create such a complicated scheme for determining whether a good is "lawfully made" without providing any guidance on those cen-

tral questions, or even a single mention of the matter in the legislative history. These questions do not arise if the word "made" is given its ordinary meaning.

II. OMEGA FAILS TO EXPLAIN WHY CONGRESS WOULD PERMIT THE DIVISION OF MARKETS FOR COPIES MADE ABROAD WHEN IT DOES NOT PERMIT SUCH A DIVISION FOR COPIES MADE HERE

Relying on the legislative history of § 602(a)(1), Omega asserts that "Congress *intended* to permit the use of copyright to enforce the allocation of national markets among various rights holders." Resp. Br. 29; accord U.S. Br. 8 (asserting that Congress, in 1976, meant to give "copyright owners * * * the ability under the copyright laws to control 'gray-market' imports").

That argument has been foreclosed. In *Quality King* this Court held that, with respect to copies made by a U.S. copyright holder in the United States, Congress did not intend to permit the use of copyright to enforce the allocation of national markets. The United States argued that the legislative history of § 602(a) showed that Congress "hinged its application solely on whether the copyright owner authorized the importation, paying no heed to whether the copyright owner had first sold the copy abroad." U.S. *Quality King* Br. 13. This Court disagreed. Accordingly, at least with respect to that large class of copies made in the United States, it was *not* "Congress's unambiguous intent in enacting Section 602(a)(1) * * * to afford copyright owners an

effective means of segmenting international markets." U.S. Br 14 n.2.

Also foreclosed by *Quality King* is Omega's argument that its position is "consistent with the history and policy underlying the first-sale doctrine." Resp. Br. 30. According to Omega, that policy makes central whether the rights-holder has exhausted its U.S. distribution right because, "when a copy is sold subject to the restriction that it is not authorized for importation and distribution in the United States, the copyright owner has not bargained for or received compensation for the value of U.S. rights." Resp. Br. 32; see also Resp. Br. 42-44 (identifying "many legitimate reasons that the owner of a copyright may wish to prevent copies made for sale in one country * * * with copies made for domestic distribution").

Because it follows from *Quality King* that the copyright holder *has* bargained for and received all the compensation it is entitled to for its U.S. rights, at least if it made the copy in the United States, it is incumbent on Omega and the United States to explain what history or policy supports a *different* result when the U.S. copyright holder makes the same good overseas. Yet both fail to explain why Congress would have intended to give U.S. copyright holders significantly more control over copies they manufacture abroad than over those they make in the United States. Omega does not even acknowledge this dichotomy, let alone explain it. That flaw runs throughout Omega's brief, raising far more questions than Omega cares to answer. Omega argues, for example, that "[t]he central purpose of § 602(a)(1) is to preserve the right of copyright owners to authorize foreign distribution * * * without simultaneously authorizing importation into the United States," because "[t]his construction protects the U.S. copyright

owner's exclusive right to distribute copies domestically." Resp. Br. 9-10. Left unexplained is why, if Congress were concerned with those U.S. distribution rights, it would protect them only, as Omega qualifies, for "*copies made outside the United States*." Resp. Br. 9 (emphasis added).[3]

Similarly, Omega argues that "market segmentation allows for more efficient exploitation of intellectual property rights" through "price discrimination [that] enhances the value of a creator's U.S. copyright." Resp. Br. 43-44. Had that belief animated Congress, such segmentation would presumably be permitted for copies made domestically, but *Quality King* holds that it is not.

As the United States conceded at the certiorari stage, "[t]here is no reason to suppose that Congress anticipated and intended [the] result" demanded by Omega's construction. U.S. Inv. Br. 19. Indeed, that result "may be inconsistent with Congress's intent in enacting other provisions of the Copyright Act" (*id.* at 14), most obviously the now-expired manufacturing provision (enacted, like § 109 and § 602, in 1976). The purpose of that provision was to ensure that production remained *in* the United States. The United States got it right 12 years ago: "it is distinctly unlikely that Congress would have provided such an incentive to manufacture abroad at the same time it was shielding the domestic printing industry under Section 601." U.S. *Quality King* Br. 30.

The United States now tries to distance itself from those admissions by characterizing this effect of

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[3] It is safe to assume that a much greater percentage of copyrighted goods in commerce in the United States were domestically manufactured in 1976 than today.

Quality King as a mere "anomaly." U.S. Br. 28. To do so, it repeatedly asserts that the Court in *Quality King* "emphasized that Section 602(a)(1) will have [a] significant practical effect" on gray-market copies. U.S. Br. 7; see also U.S. Br. 8, 30-31 n.6. But the Court did no such thing. It did enough to make clear that the category of non-piratical goods covered by Section 602(a)(1) was "not a merely hypothetical one." 523 U.S. at 147. Beyond that, the Court explicitly stated that its only "duty [was] to interpret the text of the Copyright Act" (*id.* at 153), and that "the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L'anza's products who decide to import them and resell them in the United States" (*id.* at 145). Far from believing that the legislative history of § 602 required "statutory protection for * * * price discrimination" (*id.* at 153), the Court suggested that, if manufacturers were displeased with gray-market competition, they "[p]resumably" could "avoid[] the consequences of that competition" in a number of ways (*id.* at 153 n.29 (describing options available to manufacturers)).

Omega argues that "[t]he long period of congressional inaction in the face of effectively unanimous judicial interpretation argues strongly against the adoption of the conflicting interpretation that Costco advocates." Resp. Br. 23. But that argument cuts the other way: the relevant holding of *this* Court is *Quality King*'s rejection of the notion that the first-sale doctrine does not apply to "imported copies." 523 U.S. at 138. In the intervening 12 years, Congress has not acted to reverse or limit *Quality King*. Congress may perhaps be presumed to pay attention to the holdings of this Court, but it carries legal fiction to the point of absurdity to say that Congress

acquiesces in holdings reached by *the Ninth Circuit and no other court of appeals*.

III. COSTCO'S CONSTRUCTION IS FAITHFUL TO THE COPYRIGHT ACT AND *QUALITY KING*

Costco's construction of § 109(a) is straightforward: because the first-sale doctrine applies to any copy "lawfully made under this title," it reaches any copy made anywhere in accordance with standards enumerated in the Copyright Act. That construction is faithful to the text and structure of the Act and preserves for § 602(a)(1) a significant purpose that reflects the particular concerns raised in the legislative history of that provision. And it does so in a manner that draws none of the distinctions between "doing" and "authorizing" that Omega and the United States assert.

A. The First-Sale Doctrine Does Not Turn On The Exercise Of An Exclusive Right

The United States concedes "the phrase 'lawfully made under this title' could bear th[e] meaning" advanced by Costco. U.S. Br. 5. Indeed, "in *Quality King*," it "advocated essentially that reading." U.S. Br. 17. The United States now claims that its previous construction "is no longer tenable" because "the Court in *Quality King* drew a sharp distinction between copies 'made under' Title 17 and copies 'made under' foreign law, and it *assumed* that any particular copy would be 'made under' only one legal regime." *Ibid.* (emphasis added). The United States, not this Court, made that assumption, arguing without basis that, because this Court referred to goods made under the law of one country but not another,

goods could never be made under both. U.S. Br. 15.[4] *As even Omega concedes*, "the concepts of being lawfully made 'under the law of some other country' and being 'lawfully made under this title' are [not] mutually exclusive," as evidenced by the quite common occurrence of an author "grant[ing] a single manufacturer worldwide distribution rights under the copyright laws of various countries." Resp. Br. 35-36 n.13 (internal quotation marks and alteration omitted).[5]

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[4] Moreover, as Costco has explained (Pet. Br. 35-40), in the briefs and argument in *Quality King*, no party or *amicus* disputed that whatever result the Court reached in that case should apply to foreign-manufactured as well as U.S.-manufactured goods. There is no basis for the notion that the Court, in a dictum that does not mention place of manufacture, nevertheless drew a distinction based on place of manufacture. Omega and its *amici* are noticeably silent about the briefs and argument in *Quality King*.

[5] Treatise-writers, the United States says, have understood *Quality King* the same way the United States now does. U.S. Br. 16 n.3. But *this Court*, not treatise-writers or the Acting Solicitor General, is the authoritative expositor of *Quality King*. Furthermore, the treatise-writers are demonstrably confused about the issue presented in this case. For example, Professor Goldstein's major argument against Costco's position is that it would require extraterritorial application of domestic law, but even the United States recognizes that Costco's position requires no such thing. Compare 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 7.6.1.2(a) (3d ed. 2005 & Supps.), with U.S. Br. 22. Mr. Patry, though portions of his books argue against Costco's position, has elsewhere correctly noted that "the term 'lawfully made under this title' means a copy that is made either with the permission of the copyright owner or pursuant to a compulsory license, i.e., lawfully made by virtue of the compulsory license. * * * Contrary to later courts' addressing of parallel importation issues, the term 'lawfully made under this title' has nothing to do with extraterritoriality." WILLIAM F. PATRY & REBECCA F. MARTIN, COPYRIGHT LAW AND PRACTICE 180 (Cum. Supp. 2000) (footnote omitted).

In a variation on that argument, Omega argues that the first-sale doctrine can be triggered only by the exercise of an exclusive right under § 106 (see Resp. Br. 8), and that "those exclusive rights do not apply to conduct that takes place exclusively outside the United States" (Resp. Br. 13). The second proposition is undisputed; indeed, it is *because* this is a U.S. lawsuit by Omega asserting that Costco has infringed Omega's exclusive rights under § 106(3) that this case does not raise concerns about extraterritoriality. Pet. Br. 28-33; accord U.S. Br. 22. The first proposition, however, is unsupported: the first-sale doctrine never has turned on the exercise of an exclusive right.[6]

As Omega recognizes, "[t]he term 'made' does not correspond to any of the specific rights enumerated under § 106." Resp. Br. 35. Omega inexplicably concludes that the first-sale doctrine should therefore apply only to copies that are reproduced pursuant to § 106(1) or distributed pursuant to § 106(3). But the more logical conclusion is that, precisely *because* the word "made" does not correspond to an exclusive right, the doctrine's applicability simply does not turn on the exercise of such a right. Had Congress wanted it otherwise, it presumably would have said so, either through use of the words "reproduced" or "distributed" or through cross-reference to the exclusive rights enumerated in § 106. Cross-references occur frequently in the Copyright Act, including

[6] Nor does Costco assert, as Omega incorrectly claims, "that § 106(1) gives Omega any right to make or to exclude others from making copies *in Switzerland*." Resp. Br. 14. To the contrary, Costco merely contends that copies manufactured in Switzerland may be made *according* to the Copyright Act, not that the Act *governs* such copies. See Pet. Br. 35 n.16.

§ 109(a) itself, which applies "[n]otwithstanding the provisions of section 106(3)." Had Congress wanted the first-sale doctrine to turn on the exercise of an exclusive right, it would not have used a word – "made" – that does not correspond to such a right.

Nor does the notion that the first-sale doctrine turns on an exclusive right have any historical pedigree. As noted earlier, in its previous codification, the doctrine applied to any copy that "the possession of which has been lawfully *obtained*." 61 Stat. 652, 660 (emphasis added). Like the term "made" in the 1976 Copyright Act, the word "obtained" did not correspond to any of the exclusive rights enumerated in the 1909 or 1947 Copyright Acts.

B. Costco's Construction Provides Section 602(a)(1) With Significant Effect

Omega and the United States insist that Costco's construction of the first-sale doctrine would render the importation restrictions in § 602(a)(1) "insignificant or superfluous." Resp. Br. 24; accord U.S. Br. 17-18; see also U.S. *Quality King* Br. 16 (unsuccessfully arguing that "the few remote and random factual scenarios that petitioner is willing to concede would still fall within Section 602(a) reveal how cramped and circumscribed petitioner's proposed statutory construction is"). But that argument is flawed; in at least two respects, Costco's construction gives § 602(a)(1) not only significant effect, but precisely the effect supported by the legislative history.

First, as the Court recognized in *Quality King*, however the phrase "lawfully made under this title" is defined, the first-sale doctrine applies only to "the *owner* of a particular copy or phonorecord." 17 U.S.C. § 109(a) (emphasis added). As a result, "the

first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." *Quality King*, 523 U.S. at 146-147. Omega tries to downplay that class as "small" or "theoretical." Resp. Br. 25, 27; see also U.S. Br. 14-15 n.2 (same). But, as this Court recognized, when §§ 109(a) and 602(a) were being considered, much concern was expressed about non-piratical copies that "get into illicit hands." *Quality King*, 523 U.S. at 147 n.19. To the extent intellectual property is licensed, instead of being sold outright, this prohibition on "non-owner" importation retains significant effect. See, *e.g.*, *Vernor* v. *Autodesk, Inc.*, No. 09-35969 (9th Cir. Sept. 10, 2010) (holding that first-sale doctrine does not apply because purchaser of software is a licensee and not an "owner").

Second, because Costco's construction of the first-sale doctrine makes it applicable only to copies lawfully made according to the Copyright Act, it still permits a U.S. copyright holder to use § 602(a)(1) to bar the importation of copies made solely under foreign law. This class of copies includes both those made pursuant to a foreign law, such as one for compulsory licensing,[7] and those made by foreign copyright holders who hold no rights under U.S. law. See Pet. Br. 35-36 & n.17.

[7] *See, e.g.*, James Chapman, *Russian Web Sites Jeopardize U.S. Users' The Dangers of Importing Copyrighted Material over the Internet*, 29 HASTINGS INT'L & COMP. L. REV. 267, 289 (2006) (describing attempts to undercut the rights of U.S. copyright holders by parties who reproduce and export material solely pursuant to foreign law). Contrary to the assertion of *amicus* AAP (Br. 19-20), even under Costco's construction, the suitcase exception created by § 602(a)(3) retains a purpose with respect to this category of copy.

The United States asserts that "Congress's unambiguous intent in enacting Section 602(a)(1) was to afford copyright owners an effective means of segmenting international markets." U.S. Br. 14 n.2. But not a single piece of legislative history produced in support of that claim speaks to the facts presented here, where a copyright holder seeks to use § 602(a)(1) to restrict the importation of *copies made by the U.S. copyright owner itself*. The cited legislative history speaks instead to the danger faced by parties who hold *only* U.S. rights, and who otherwise might have the value of those rights entirely eliminated through competition from copies made abroad by foreign copyright holders unrelated to them. See Pet. Br. 38-40; U.S. Br. 9-10 (citing history that distinguishes between rights given to U.S. and foreign publishers); AAP Br. 23-35 (same).[8] In *that* context, the Court in *Quality King* noted, "*presumably* only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." 523 U.S. at 148 (emphasis added). Contrary to claims that Costco ignores Congress's intent in enacting § 602(a)(1), the construction it proposes sensibly excludes from the first-sale

[8] The United States argues that Congress was concerned about "competition from copies imported by downstream wholesalers and jobbers * * * not about unauthorized importation by the 'foreign copyright holders' themselves." U.S. Br. 20-21. This is a distinction without consequence: all parties agree that Congress was concerned about the competition that U.S. copyright holders faced from works made abroad under foreign copyright, regardless of how those copies made it to the United States. The disagreement between the parties concerns whether Congress *also* meant to protect U.S. copyright holders from competition caused by copies they *themselves* made abroad, a matter on which the legislative history is silent.

doctrine those copies made abroad *not* by the holder of the U.S. copyright, but by foreign copyright holders that have no rights under U.S. law. This construction is faithful to the text, history, and purposes of both § 109(a) and § 602(a)(1).[9]

C. Costco's Construction Of The *Quality King* Dictum Is Consistent And Sensible

1. Costco's certiorari petition explained that this Court's key dictum in *Quality* King, 523 U.S. at 148, involving publishers of British and U.S. editions, turned on *rights* granted, not on place of manufacture. Pet. 14. According to the United States, Costco's petition "appeared to draw a sharp distinction between copies produced abroad by the United States copyright owner itself and copies made abroad by another entity with the copyright." U.S. Br. 18. In its invitation brief, the United States mis-

[9] The United States also argues that Costco's construction would render § 602(a)(1) superfluous in light the recently enacted § 602(a)(2). U.S. Br. 14 n.2; see also Resp. Br. 26. But neither the United States nor Omega responds persuasively to Costco's demonstration (Pet. Br. 45-46) of the distinct role each relevant subsection of § 602 serves. Furthermore, as the United States recently advised the Court in a different matter, arguments of this nature "ignore[] the timing of the respective [sections'] enactment." Brief for the United States as *Amicus Curiae* at 19, *Kasten* v. *Saint-Gobain Performance Plastics Corp.* (No. 09-834). Section 602(a)(1) was enacted in 1976. Section 602(a)(2), which while similar to § 602(a)(1) also adds a new private right of action against exporters, was enacted in 2008. The fact that Congress included "a more detailed * * * provision more than a generation later, when it drafted [§ 602(a)(2)], tells us little about what Congress meant at the time it drafted the comparable provision of [§ 602(a)(1)]," let alone § 109(a). *Lambert* v. *Ackerley*, 180 F.3d 997, 1005 (9th Cir. 1999).

understood Costco's position in the same way – indeed, *in the same words* – and Costco made it clear that the United States was mistaken: "Petitioner draws no such distinction." Supp. Br. 9 (filed March 29, 2010). Rather, Costco continued, "consistent with the 'basic principle of copyright law' cited by the United States * * *, copies made abroad by *either* the U.S. copyright holder *or* a separate entity authorized by that holder to make copies are subject to the first-sale doctrine." *Ibid.*

Omega asserts that "Costco initially conceded" that equating the acts of "doing" and "authorizing" is foreclosed by the *Quality King* dictum. Resp. Br. 20. Relatedly, the United States asserts that, under Costco's construction, if an author licensed "United States and foreign publishers to reproduce [his] work in their respective countries, the copies created abroad would be 'lawfully made under [Title 17]' as petitioner construes that phrase because they would be made with the authorization of the United States copyright owner." U.S. Br. 19. But that is not Costco's position. Discussing the Court's *Quality King* dictum, Costco observed that, "if a copyright owner gives exclusive American publishing rights to Person A, and exclusive British publishing rights to Person B, * * * B's books are not lawfully made under the Copyright Act * * * because B did not receive U.S. rights from the copyright owner." Pet. 14. That remains Costco's construction: the authorization given to *Person A* to exploit the U.S. copyright cannot be construed to render a copy made by *Person B* "lawfully made under this title" because *Person B's* copies were neither *made* under U.S. law, nor *authorized* to be made under U.S. law.

2. Under Costco's construction, if copyright owner *O* were to license the production and distribution of its watches to two unrelated parties, *U* and *F*,

with *U* given only the U.S. copyright and *F* given only foreign copyrights, *U* would be able to prevent the importation of *F*'s copies because those copies would not have been made *according to the Copyright Act*. See Resp. Br. 40-41.

Omega suggests that Costco's construction gives licensee *U* a right to prevent the importation of certain copies made abroad that is not available to copyright owner *O*. But that is not true: if *O* were to license only its foreign rights and retain its U.S. rights, it too would have the right to prevent the importation of *F*'s copies for the very same reason. In each scenario, in the absence of § 602, the entity holding U.S. rights would not have any means to ensure that it enjoys the exclusive right of first distribution afforded to it under the Copyright Act.

But this case is different. Here, Omega, as the owner of both U.S. and foreign rights, was free to determine when, where, and to whom to make the "first sale" of the copies at issue. The same would be true if Omega had licensed or assigned exclusive foreign distribution rights to a related entity. In such a case, Omega presumably could control the terms of the first sale and prohibit that entity from selling into the U.S. market.

There is no justification, however, for permitting Omega to control the sale of the *same* copies in two *different* markets. As the Court held in *Quality King*, "[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." 523 U.S. at 152.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

NORMAN H. LEVINE
AARON J. MOSS
GREENBERG GLUSKER FIELDS CLAMAN & MACHTINGER LLP
1900 Ave. of the Stars
Los Angeles, CA 90067
(310) 553-3610

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

Counsel for Petitioner

September 2010

SUPPLEMENTAL BRIEF

Supreme Court, U.S.
FILED
OFFICE OF THE CLERK

No. 08-1423

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA, S.A.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

SUPPLEMENTAL BRIEF FOR PETITIONER

ROY T. ENGLERT, JR.*
ARIEL N. LAVINBUK
Robbins, Russell, Englert, Orseck, Untereiner & Sauber LLP
1801 K Street, N.W.
Suite 411
Washington, D.C. 20006
(202) 775-4500

**Counsel of Record*

SUPPLEMENTAL BRIEF FOR PETITIONER

Pursuant to Rule 15.8 of the Rules of this Court, petitioner Costco Wholesale Corporation submits this brief to call the Court's attention to a decision of the United States District Court for the Southern District of New York, rendered just last Friday, September 25, 2009: *Pearson Education, Inc.* v. *Liu*, No. 1:08-cv-06152-RJH, Addendum, *infra*, 1-19. Although a decision of a district court might not ordinarily merit this Court's attention, *Pearson Education* demonstrates that even lower courts that *agree* with petitioner's position on the merits are unwilling to adopt that position without direct guidance from this Court. The present case presents a golden opportunity for this Court to provide the needed guidance by reviewing the important and recurring question presented, and aligning the interpretation of 17 U.S.C. § 109(a) with its actual text, rather than with misguided Ninth Circuit glosses on the statutory text.

1. *Pearson Education* presented the exact same question as this case, and did so in a more typical context: plaintiffs, large publishing companies, sued "small-time internet entrepreneurs." Addendum, *infra*, 3; see Pet. Reply Br. 11 (noting that "most defendants are small, impecunious retailers that lack the wherewithal to mount a meaningful defense against well-financed, major manufacturers, let alone to appeal an adverse ruling"). The district court in *Pearson Education*—unlike almost every other district court to consider the question (see Pet. Reply Br. 10-11; Pet. 27-28)—engaged in a careful analysis of the text, structure, legislative history, and policy aims of the statute, as well as this Court's opinion in *Quality King Distribu-*

tors, Inc. v. Lanza Research International, Inc., 523 U.S. 135 (1998).

The court observed that, if it "were to limit its consideration to the traditional tools of statutory interpretation, it likely would" agree with the alleged copyright infringers in that case (and petitioner Costco in this case) that "the first-sale doctrine [is] applicable when a copy of a copyrighted work is manufactured abroad and imported into the United States." Addendum 9. Specifically, "the language of the statute" supports the view that "'lawfully made under this title' refers not to the *place* a copy is manufactured, but to the *lawfulness* of its manufacture as a function of U.S. copyright law."Addendum 10 (citing *Sebastian Int'l Inc. v. Consumer Contacts (Pty) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988)); accord Pet. 9-10; Pet. Reply Br. 6, 7. Furthermore, "[t]he structure of the statute confirms what its text suggests." Addendum 11; accord Pet. 11. Finally, "[t]urning to the history and purposes of the first-sale doctrine, nothing suggests that the doctrine should not apply when a copy is manufactured abroad." Addendum 12; accord Pet. 21-24.

2. The court next noted the doctrinal incoherence—and inconsistency with *Quality King*—of the Ninth Circuit's patchwork of nontextual interpretations of the Copyright Act. Addendum 13-14 (citing *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994); *Denbicare U.S.A. Inc. v. Toys R Us, Inc.*, 84 F.3d 1143, 1150 (9th Cir. 1996); and the decision below). The Ninth Circuit, the district court correctly noted, "has never explained how § 109(a)'s text supports a distinction based on where a first sale occurred. And the distinction it has drawn conflicts directly with *Quality King*'s holding that place of sale is irrelevant for first-sale purposes." Addendum 14;

accord Pet. Reply Br. 5-7. The court also made short work of the "frequently-repeated argument that applying the first-sale doctrine to copies of a copyrighted work manufactured abroad would render § 602(a) 'virtually meaningless.'" Addendum 14-15 (quoting *Columbia Broad. Sys., Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), aff'd mem., 738 F.2d 421 (3d Cir. 1984)). Accord Pet. Reply Br. 4.

The court concluded—correctly—that "nothing in § 109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies of a work manufactured in the United States." Addendum 15.

3. In an ending reminiscent of the short stories of O. Henry, however, the court reached the surprising conclusion that dicta in *Quality King* precluded it from following the correct reading of the statute. Addendum 16-18 (citing *Quality King*, 523 U.S. at 148). The court underscored its disagreement with the perceived constraint of the *Quality King* dicta both by gently chiding this Court for relying on "extratextual sources" (Addendum 16) and by labeling its holding "*dubitante*" (Addendum 18). See Jason J. Czarnezki, *The* Dubitante *Opinion*, 39 AKRON L. REV. 1, 1 (2006) ("Judges rarely write *dubitante* opinions or use the term * * *.").

The district court misunderstood the hypothetical example that the Court discussed in dicta. Properly understood, it provides no support for a distinction based on place of manufacture, as Costco explained in the petition (at 18).

Nevertheless, it is undeniable that this Court's dicta continue to confuse the lower courts. Even a court attentive to statutory text, structure, and policy—and even a court that correctly understands that the Ninth

Circuit had to depart from *both* statutory text and the *holding* of *Quality King* to rule as it did—felt constrained by mere dicta of this Court (and misunderstood dicta at that) to issue a ruling unfaithful to proper statutory analysis. Nothing could better illustrate that *only* this Court can bring doctrinal coherence to this question. The Court should do so now.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

ROY T. ENGLERT, JR.*
ARIEL N. LAVINBUK
Robbins, Russell, Englert, Orseck, Untereiner & Sauber LLP
1801 K Street, N.W.
Suite 411
Washington, D.C. 20006
(202) 775-4500

**Counsel of Record*

September 2009

ADDENDUM

Addendum 1

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PEARSON EDUCATION, INC.,

Plaintiffs,

- against -

GANGHUA LIU, ET AL.,

Defendants.

1:08-cv-06152-RJH

MEMORANDUM OPINION AND ORDER

Richard J. Holwell, District Judge:

Through this action, two U.S. copyright holders seek to prevent the importation and resale of copies of their works that have been lawfully manufactured and purchased outside the United States, a form of arbitrage sometimes referred to as "parallel importation" through the "grey market." Defendants have moved to dismiss the complaint on the ground that their activities are protected by the first-sale doctrine, the rule that the purchaser of a physical copy of a copyrighted work may give or sell that copy to someone else without infringing the copyright owner's exclusive distribution rights. Although the question of whether the first-sale doctrine applies to copies of a copyright work that have been lawfully manufactured abroad is an open question in this circuit, the Supreme Court has said, in unanimous dicta, that the doctrine does not apply to copies of a copyrighted work manufactured abroad. Because the case for a contrary interpretation is not so strong as to justify disregarding the Supreme Court's considered views, defendants' motion to dismiss will be denied.

Addendum 2

I.

As the case is before the Court on defendants' motion to dismiss, the Court takes the allegations of the complaint as true and draws all reasonable inferences in plaintiffs' favor. *E.g.*, *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 124 (2d Cir. 2009).

Plaintiffs, Pearson Education, Inc. and John Wiley & Sons, Inc., publish educational books throughout the world. (Compl. ¶¶ 10, 14-15.) As part of their regular business, plaintiffs require authors to assign them copyrights for works they publish, or to grant to them the exclusive right to reproduce and distribute their works in the United States. (*Id.* ¶ 11.) Plaintiffs also own a number of well-known trademarks, which they use to differentiate their products in the marketplace. (*Id.* ¶¶ 17-19.)

The textbooks plaintiffs publish are customized for the geographical markets in which they are sold. Editions authorized for sale in the United States are of the highest quality, and are printed with strong, hard-cover bindings with glossy protective coatings. (*Id.* ¶ 14.) Sometimes, plaintiffs include academic supplements, such as CD-ROMs or passwords to restricted websites, with these books. (*Id.*) Editions authorized for sale outside of the United States, by contrast, have thinner paper, different bindings, different cover and jacket designs, fewer ink colors, and lower-quality photographs and graphics. (*Id.* ¶ 15.) These foreign editions are not bundled with academic supplements such as CD-ROMs. (*Id.*) The cover of a foreign edition may include a legend indicating that the book is a "Low Price Edition" or only authorized for sale in a particular country or geographic region. (*Id.*) The foreign editions are uniformly manufactured outside the United States. (*Id.*)

Defendants can reasonably be described as small-time internet entrepreneurs. They purchase plaintiffs' low-priced foreign editions abroad, import them into the United States, then sell them to U.S. customers using websites maintained by third parties. (*Id.* ¶¶ 6-9, 20.) Plaintiffs allege that "Defendants have without permission purchased Foreign Editions of plaintiffs' books manufactured outside of the United States and resold them to purchasers in the United States through the Internet using the username 'JMBooks' at . . . websites including, but not limited to, Valorebooks.com." (*Id.* ¶ 20.)[1]

The complaint does not allege that any of the copies sold by defendants are piratical (i.e., unauthorized or counterfeit), manufactured without plaintiffs' consent, or not owned by defendants. Plaintiffs demand preliminary and permanent injunctions enjoining defendants from selling foreign editions of their copyrighted books in the United States, damages, and attorneys' fees.

Defendants have moved to dismiss the complaint. They principally contend that their importation and sale of plaintiffs' foreign editions does not infringe plaintiffs' copyrights, because their actions are protected by the first-sale doctrine codified in § 109 of the Copyright Act, 17 U.S.C. § 109 (2006). Defendants further contend that because plaintiffs' trademark claims are derivative of their copyright claims, those claims fail as a matter of law.

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[1] The referenced website describes itself as "the student's #1 marketplace to buy cheap textbooks for college." Valorebooks homepage, http://www.valorebooks.com/ (last visited Sep. 19, 2009).

II.

Defendants' motion raises the question whether the importation and sale of copies of a copyrighted work that were lawfully manufactured abroad violates a U.S. copyright owner's exclusive rights. Three sections of the Copyright Act are relevant to that question: (i) § 106(3), the Act's rights-granting provision; (ii) § 109(a), the Act's codification of the first-sale doctrine; and (iii) § 602(a), which is entitled "Infringing importation of copies or phonorecords."

A. Section 106(3)

Section 106(3) grants the owner of a U.S. copyright, "[s]ubject to sections 107 through 122," the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . ." In contrast to the core copyright rights of reproduction and adaptation, the distribution right is a right to control use. See John M. Kernochan, *The Distribution Right in the United States of America: Review and Reflections*, 42 Vand. L. Rev. 1407, 1416-17 (1989). It primarily protects a copyright owner's ability to control the terms on which her work enters the market by providing a remedy against persons who distribute copies of her work without permission. See 2 Nelville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[A], at 8-154 (2008) ("Nimmer"). Thus, although the language of § 106(3) seemingly gives a copyright owner unlimited control over commercial transactions involving copies of her work, it has long been recognized that the principal effect of the distribution right is to give a copyright holder "a right to control the work's publication." *Id.* § 8.11[A], at 8-148 (emphasis added).

B. Section 109(a)

This limitation on scope of the distribution right, known as the first-sale doctrine, is codified in § 109(a) of the Act. The doctrine originates in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), a case decided under the Copyright Act of 1891. There, a publisher attached a notice to the copyright page of a book which provided that the book could not be sold for less than a dollar. *Id.* at 341. Acting in defiance of this price control, defendants bought copies of the book at wholesale and resold them for eighty-nine cents. *Id.* at 342. The publisher sued, arguing that defendants' "unauthorized" (albeit procompetitive) sales of the book violated its exclusive right to "vend" under § 1(a) of the 1891 Act. *Id.* at 343.

The Supreme Court rejected the publisher's argument, holding that "[t]he purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it." *Id.* at 350. As the Court explained, a copyright owner who purposefully transfers ownership of a copy of her work chooses the terms on which the work enters the market. *See Bobbs-Merrill*, 210 U.S. at 351; *see also Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963). The purpose of the distribution right thus having been satisfied, "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation." 2 Nimmer § 8.12[A], at 8-155. Accordingly, the Court ruled that the publisher's right to "vend" copies of its work did not encompass the right to control the terms of subsequent sales. *Bobbs-Merrill*, 210 U.S. at 351.

The outcome reached by the Court can also be justified by considering the prohibitive transaction costs of affording a copyright holder an unlimited right to

control the terms under which her work is sold. "[S]uccessive possessors of the copy or phonorecord should not be put to the trouble of having to negotiate with the owner each time they contemplate a further sale or other transfer of the copy or phonorecord." 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1, at 7:131 (2005). If a copyright owner wishes to control future sales, she can lease or rent copies of her work rather than selling them, *see id.*, or, if copies are sold, contractually limit their distribution (consistent with provisions of the antitrust laws).

Congress codified the first-sale doctrine in the Copyright Acts of 1909, 1947, and 1976. Section 41 of the 1909 Act, which appears in identical form in § 27 of the 1947 Act, provides in relevant part that "nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." Pub. L. No. 60-349, 35 Stat. 1075, 1084 (1909); Pub. L. No. 80-281, 61 Stat. 652, 660 (1947). Section 109 of the 1976 Act provides in relevant part that,

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109. In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the Supreme Court noted that "[t]here is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope." *Id.* at 152. This understanding is consistent with the House Committee on the Judiciary's report on the 1976 Act. See H.R. Rep. No. 1476, at 79

(1979) ("Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means."), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

C. Section 602(a)

Section 602(a) addresses the extent to which the distribution right allows a copyright owner to also control the importation of copies of her work. It provides in part that,

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

17 U.S.C. § 602(a).

In view of § 602(a)'s position in a separate chapter of the Copyright Act, as well as the statute's unqualified reference to *all* copies acquired outside the United States, one might suppose that Congress intended to give copyright owners authority to restrict the importation of copies of a work without regard to the first-sale doctrine, and without regard to the other limitations on a copyright owner's exclusive rights in sections 107 through 122 of the Act. The Supreme Court, however, has rejected this broad reading of the statute.

In *Quality King*, a California-based manufacturer, L'Anza Research International, sold several tons of

beauty products bearing its copyrighted labels to a distributor in Malta with the apparent understanding that the products would only be offered for sale outside the United States. 523 U.S. at 138-39. Like plaintiffs here, L'Anza charged different prices for its goods depending on the market they would be sold in. *See id.* at 139. After the shipment made its way back to the United States, L'Anza sued salons that had purchased and resold its "unauthorized" products. It contended that "the importation and subsequent distribution" of its copyrighted labels violated its exclusive rights under §§ 106, 501, and 602 of the Copyright Act. *Id.* at 139-40.

The Supreme Court rejected this argument and held that a copyright owner's § 602 right to control the importation of copies of her work is a species of § 106(3)'s distribution right, which is subject to the first-sale doctrine. *See id.* at 149. The Court reasoned that the plain text of § 602(a) provides that "importation is an infringement of the exclusive right to distributed copies '*under section 106.*'" *Id.* at 144 (quoting § 602(a)). Because § 106 grants a copyright owner exclusive rights "[s]ubject to sections 107 through 122," the copyright owner's power to limit importation is qualified by the first-sale doctrine. *Id.* at 144-45.

Although *Quality King* clarified that the first-sale doctrine was not limited by the place where an initial transfer of ownership occurred, the Court did not resolve whether the place a copyrighted good was manufactured mattered for first-sale purposes. As Justice Ginsburg noted in a brief concurrence, the case "involve[d] a 'round trip' journey, travel of the copies in question from the United States to places abroad, then back again." *Id.* at 154 (Ginsburg, J., concurring). Thus, the Court's decision did not "resolve cases in which the allegedly infringing imports were manufactured abroad." *Id.* In dicta, however, the Court suggested that

the first-sale doctrine did not extend to copies of a work manufactured abroad. *Id.* at 148 (opinion of the Court); *see infra* § IV.

III.

In view of *Quality King*'s holding that § 602(a)'s "distribution right" is subject to the first-sale doctrine in cases involving a "round trip" transaction, the question presented by defendants' motion is narrow: Is the first-sale doctrine also applicable when a copy of a copyrighted work is manufactured abroad and imported into the United States?

If the Court were to limit its consideration to the traditional tools of statutory interpretation, it likely would answer that question in the affirmative. Section 109(a) provides that "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . . ." By § 109(a)'s terms, the first-sale doctrine applies if two conditions are satisfied. First, the person claiming the doctrine's protection must hold title to a particular copy: that person must be "*the owner*" of the copy. And second, the copy must have been "lawfully made under this title."

Courts have divided over what it means for a copy to be "lawfully made under this title." § 109(a); *compare Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983) (Green, J.), *aff'd without op.*, 738 F.2d 421 (3d Cir. 1984), *with Sebastian Int'l Inc. v. Consumer Contacts (Pty) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988). On one hand, some courts have held that because a U.S. copyright holder cannot sue a foreign manufacturer for violating her

exclusive right to reproduce a copyrighted work in copies, see 17 U.S.C. § 106(1); *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988), a copy manufactured abroad is born in a state of legal limbo, neither legal nor illegal as a matter of U.S. law. On this view, a copy of a copyrighted work is not "lawfully made under this title" unless it also is "legally manufactured . . . within the United States." *Scorpio*, 569 F. Supp. at 49. Other courts have "confess[ed] some uneasiness with this construction," implicitly suggesting that "lawfully made under this title" refers not to the *place* a copy is manufactured, but to the *lawfulness* of its manufacture as a function of U.S. copyright law. *See Sebastian Int'l*, 847 F.2d at 1098 n.1.

In this Court's view, the second interpretation is the better one. Starting with the language of the statute, the focus of § 109(a) is on whether a particular copy was manufactured lawfully. The statute provides that to be subject to the first-sale doctrine, "a particular copy or phonorecord" must be "lawfully made." It then specifies which jurisdiction's law controls this determination. For the first-sale doctrine to apply, a copy must be "lawfully made under this title"—that is, lawfully made under the standards of Title 17 of the United States Code. A copy is not "lawfully made under this title," by contrast, if its manufacture was only lawful under some other source of law. Stated differently, § 109(a) teaches that for first-sale purposes, the lawfulness of a particular copy or phonorecord should be judged by U.S. copyright law no matter where the copy or phonorecord was manufactured. In the normal run of cases, this condition will be satisfied if the copy was manufactured by the U.S. rightsholder, *see* § 106(1); if the U.S. rightsholder authorized the copy to be manufactured, *see Graham v. James*, 144 F.3d 229, 236 (2d Cir. 1998); or if the manufacturer's activities would be privileged under U.S. concepts of fair use, *see* § 107.

The structure of the statute confirms what its text suggests. Throughout the Copyright Act of 1976, Congress used "under this title" to describe the scope of the rights created by the Act, not the place a copy or phonorecord was manufactured. Thus, § 101 excludes from the definition of "[a] work of visual art" any work "not subject to copyright protection under this title"; § 104(a) provides that certain works, "while unpublished, are subject to protection under this title without regard to the nationality or domicile of the author"; § 105 provides that "[c]opyright protection under this title is not available for any work of the United States Government"; § 106 provides that "the owner of copyright under this title has the exclusive rights to do and to authorize any of the following . . . "; and § 201(a) provides that "[c]opyright in a work protected under this title vests initially in the author or authors of the work."

In contrast, "[w]hen Congress considered the place of manufacture to be important, . . . the statutory language clearly expresses that concern." *Sebastian Int'l*, 847 F.2d at 1098 n.1. Most notably, § 601(a) of the Act, the so-called "manufacturing requirement," provides that:

> Prior to July 1, 1986, and except as provided by subsection (b), the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is *protected under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States or Canada*.

17 U.S.C. § 601(a) (emphasis added). Section 1001, added by the Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (1992), likewise refers to

a copy's place of manufacture. 17 U.S.C. § 1001(8) ("To 'manufacture' means to produce or assemble a product in the United States.").

Turning to the history and purposes of the first-sale doctrine, nothing suggests that the doctrine should not apply when a copy is manufactured abroad. First, the common law policy against restraints on trade and alienation is not limited by the place a chattel is manufactured; a prohibition against selling books manufactured in China is just as much a restraint on trade and alienation as a prohibition against selling books manufactured in Chicago. The early Copyright Acts reflect this principle. Under the 1909 and 1947 Acts, the first-sale doctrine applied to "*any* copy of a copyrighted work the possession of *which has been lawfully obtained*." Pub. L. No. 60-349, 35 Stat. 1075, 1084 (1909); Pub. L. No. 80-281, 61 Stat. 652, 660 (1947) (emphasis added). *Cf. Quality King*, 523 U.S. at 152 ("There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope.").

Justifications for the first-sale doctrine that are framed in explicitly economic terms likewise argue against limiting the doctrine to copies manufactured in the United States. Granting a copyright holder the unlimited power to control commercial transactions involving copies of her work creates high transaction costs regardless of where a copy is manufactured; indeed, the transaction costs of negotiating the terms of future sales will almost certainly be *higher* when a copy is manufactured abroad. And when a copyright owner manufacturers copies of her work abroad, the Copyright Act fully protects her right to bring her work to market on terms of her own choosing; it is only when someone else becomes the "owner" of a "particular copy or phonorecord" that the first-sale doctrine takes effect. To be

sure, it might be objected that a copyright owner who sells her work abroad receives less than the "full" value of the work measured by the prices charged in more affluent markets. But the objection depends on the assumption, unknown to modern economic theory, that a voluntarily-negotiated sale is not "fair" because the seller could have exacted a higher price from an alternative buyer in a more affluent market. *Cf.* Jamie S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C. J. Int'l L. & Com. Reg. 205, 207 (1986) ("Parallel importers only buy goods at prices that foreign manufacturers are willing to sell the goods. Original trademark owners are not forced to sell in foreign markets at prices that encourage parallel importation.").

The unusual consequences that follow from limiting the first-sale doctrine to copies manufactured in the United States further argue against limiting the doctrine based on the place a copy is manufactured. As the Ninth Circuit has acknowledged, a reading of § 109(a) that equates "lawfully made under this title" with "made in the United States" prevents the first-sale doctrine from ever applying to a copy or phonorecord manufactured outside the United States. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994). Because a copy must be "lawfully made under this title" for the first-sale doctrine to apply, a subsequent purchaser can never "sell or otherwise dispose of the possession of that copy or phonorecord" without the permission of the copyright owner. 17 U.S.C. § 109(a).

In *Parfums Givenchy*, the court suggested in dicta that the solution to this dilemma was to hold that a copy or phonorecord manufactured abroad is not subject to the first-sale doctrine "unless and until there has been a 'first sale' *in the United States*." 38 F.3d at 481

n.8 (emphasis in original). Later Ninth Circuit cases adopted this dictum as a holding of the court. *Denbicare U.S.A. Inc. v. Toys R Us, Inc.*, 84 F.3d 1143, 1150 (9th Cir. 1996) ("[U]nder the law of the circuit, § 109 applies to copies made abroad only if the copies have been sold in the United States by the copyright owner or with its authority."); *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 986 (9th Cir. 2008) ("§ 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here."), *petition for cert. filed*, 77 U.S.L.W. 3657 (May 18, 2009). But the court has never explained how § 109(a)'s text supports a distinction based on where a first sale occurred. And the distinction it has drawn conflicts directly with *Quality King's* holding that place of sale is irrelevant for first-sale purposes. *See Quality King*, 523 U.S. at 145 ("After the first sale of a copyrighted item 'lawfully made under this title,' any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an 'owner' of that item" protected by the first-sale doctrine."). Thus even if this Court were tempted to follow the Ninth Circuit's interpretation of § 109(a) as a way of giving effect to the supposedly conflicting policies of §§ 109(a) and 602(a), it could not do so without disregarding an express holding of the Supreme Court.

Lastly, the frequently-repeated argument that applying the first-sale doctrine to copies of a copyrighted work manufactured abroad would render § 602(a) "virtually meaningless," *Scorpio*, 569 F. Supp. at 49, provides scant support for limiting the first-sale doctrine to domestically-manufactured copies. The standard citation for that argument is a statement in the House Committee on the Judiciary's report that "any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them . . . ." H.R. Rep. No.

1476, at 170. *See, e.g., Parfums Givenchy*, 38 F.3d at 482 n.8. But read as a whole, § 602(a)'s legislative history is at best ambiguous as to whether the drafters of the 1976 Act intended that § 602(a) would make the first-sale doctrine inapplicable to copies of a copyrighted work manufactured abroad. Kernochan, *supra*, at 1418 ("The legislative history . . . is rather ambiguous on the effect of section 602(a) in nonpiracy situations and contains material that could support either [a broad or a narrow reading]."); *see also* William C. Tyson & Robert P. Parker, *Parallel Importation of Copyrighted Phonorecords*, 10 N.C.J. Int'l L. & Com. Reg. 397, 406 (1985); Stephen W. Feingold, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U. J. Int'l L. & Pol. 113, 138 (1984). In any event, § 602(a) continues to apply to copies of a work that are not the subject of a first sale, a scenario expressly contemplated by § 602(a)'s legislative history; and there clearly exist circumstances where a copy is *not* lawfully manufactured under the standards of Title 17 but is lawfully manufactured under the standards of some other source of law. A copy, for example, might be manufactured pursuant to a compulsory license required by foreign law, *see, e.g., T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575, 1577 (D.N.J. 1987) (compulsory license under New Zealand Copyright Act), or it might be manufactured in a country with no copyright law at all. In these circumstances, importation of copies without the copyright holder's authorization remains actionable under § 602(a).

For these reasons, the Court provisionally is of the view that nothing in § 109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies of a work manufactured in the United States.

IV.

This analysis, however, overlooks an important piece of data: In *Quality King*, the Supreme Court spoke directly to whether the first-sale doctrine applies to copies manufactured abroad. In the course of addressing the argument that applying the first-sale doctrine to § 602(a) would render that section meaningless, the Court noted that even limited by the first-sale doctrine, § 602(a) gives U.S. copyright holders an important bundle of rights. First, § 602(a) gives copyright owners a private remedy against importers of piratical copies, a power absent in previous versions of the Copyright Act. *Quality King*, 523 U.S. at 146. Second, because the first-sale doctrine is only available to the "owner" of a lawfully made copy, § 602(a) allows a copyright holder to prohibit imports by someone who does not hold title to the copies in question, such as a bailee, licensee or consignee, or a person who acquired possession of a copy unlawfully. *Id.* at 146-47. And third, "§ 602(a) applies to a category of copies that are neither piratical nor 'lawfully made under this title.'" *Id.* at 147.

This last category clearly includes copies produced under a foreign compulsory license and copies produced in nations with no copyright law. But as a further example, the Court noted that § 602(a) gives a copyright owner the power to prohibit the importation of copies manufactured abroad with the U.S. rightsholder's authorization. Citing a variety of extratextual sources, the Court stated:

> If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, . . . presumably only those made by the publisher of the United States

> edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), *if there was a distribution of the copies*).

Id. at 148 (emphasis added and footnote omitted) (citing *Copyright Law Revision Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law*, 88th Cong., 2d Sess., 119, 209 (H.R. Judiciary Comm. Print 1964) (statements of Mrs. Pilpel and Mr. Manges)). Thus, the Court appears to have specifically considered the fact pattern presented by this case: one in which books manufactured by a foreign publisher for sale abroad are imported into, and distributed within, this country without the consent of the U.S. copyright holder. The Court expressed the view that in these circumstances, the U.S. copyright holder is entitled to maintain an infringement action against the importer under § 602(a).

As this Court has reasoned previously, "if dicta this be, it is of the most persuasive kind." *Arnold's Wines, Inc. v. Boyle*, 515 F. Supp. 2d 401, 412 (S.D.N.Y. 2007) (Holwell, J.), *aff'd*, 571 F.3d 185 (2d Cir. 2009). When the Supreme Court addresses an unsettled question of federal law in unanimous dicta, respect for the Supreme Court as an institution and the dedicated jurists who serve on it mandates deference in all but the most exceptional circumstances. "[L]anguage the Supreme Court uses when it explicitly announces its holding must be assumed to have been crafted with care . . . ." *Kinstler v. First Reliance Standard Life Ins. Co.*, 181 F.3d 243, 250 (2d Cir. 1999). *See, e.g., Jones v. St. Paul Cos., Inc.*, 495 F.3d 888, 893 (8th Cir. 2007); *Sierra Club v. EPA*, 322 F.3d 718, 724 (D.C. Cir. 2003).

In this Court's view, this case comes close to demonstrating such exceptional circumstances—but not quite. As demonstrated by the decades-old tension in circuit law, reasonable jurists can, and do, disagree about the first-sale doctrine's application to copies manufactured abroad. While this Court would not limit the doctrine to copies manufactured in the United States, the case for this interpretation of § 109(a) is not so overwhelming as to justify disregarding the Supreme Court's views. "Lawfully made under this title" can plausibly be read to refer to the jurisdiction in which a copy is manufactured. And as the Court noted in *Quality King*, this understanding of the first-sale doctrine is supported by at least some of § 602(a)'s legislative history. See 523 U.S. at 148. This Court therefore holds, *dubitante*, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad.

V.

Under this reading of the Copyright Act, the complaint states a claim upon which relief can be granted. It alleges that defendants purchased foreign editions of plaintiffs' books manufactured abroad and resold them to purchasers in the United States after importing the books into this country. Because the foreign editions were manufactured abroad, defendants did not acquire ownership of copies "lawfully made under this title." § 109(a). Indeed, defendants can *never* claim the protection of the first-sale doctrine as to plaintiffs' foreign editions. *See supra* p. 12. Defendants' activities therefore are actionable under §§ 106(3), 501, and 602(a) of the Act.

Defendants' motion to dismiss **[10]** is denied.

SO ORDERED

Dated: New York, New York
September 25, 2009

/s/
Richard J. Holwell
United States District Judge

SUPPLEMENTAL BRIEF

Supreme Court, U.S.
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No. 08-1423

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

SUPPLEMENTAL BRIEF FOR PETITIONER IN RESPONSE TO BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

ROY T. ENGLERT, JR.
renglert@robbinsrussell.com
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

Counsel for Petitioner

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SUPPLEMENTAL BRIEF FOR PETITIONER IN RESPONSE TO BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), the Solicitor General argued that "[t]he correct and * * * natural reading of the phrase 'lawfully made under this title' refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17. That reading is also consistent with the legislative history." Brief for the United States as *Amicus Curiae* at 30 n.18 (No. 96-1470) (citations omitted). The government advanced that view even as it urged the Court to adopt an exceedingly narrow construction of 17 U.S.C. § 109(a)'s first-sale doctrine that would not reach any good imported into the United States. This Court unanimously rejected that construction as inconsistent with "[t]he whole point of the first sale doctrine[, which] is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152.

Now the Solicitor General once more urges an exceedingly narrow construction of Section 109(a) – one that would cabin *Quality King*'s reach to the rare class of goods that are manufactured in the United States, exported, and re-imported. To reach her desired outcome, however, the Solicitor General now disavows the United States' prior position, arguing instead that the phrase "lawfully made under this title" means "made in the United States." See U.S. Br. 11 n.4. She does so despite recognizing that "[t]he potential implications of excluding foreign-made copies of a copyrighted work from Section

109(a)'s coverage are * * * troubling," U.S. Br. 18, and admitting that "[t]here is no reason to suppose that Congress anticipated and intended [such] result[s]," U.S. Br. 19. The Solicitor General even admits that the United States' new position "may be inconsistent with Congress's intent in enacting other provisions of the Copyright Act." U.S. Br. 14.

The rationale for the government's about-face is telling. U.S. Br. 11 n.4. The United States attributes its change of heart not to the reasoned view of agencies with subject-matter expertise, but rather to a belief that the government's prior understanding – the same one advanced by Costco – "*appears to be* inconsistent with the Court's holding" in *Quality King*. *Ibid.* (emphasis added).

For reasons elaborated below, the Solicitor General is wrong to conclude that *Quality King* demands that Section 109(a) apply only to goods made in the United States. As the Solicitor General acknowledges, her view is not based on the holding of *Quality King*. U.S. Br. 8 (stating that "the Court had no occasion to decide the issue presented here"). It depends instead on a passage discussing a "market allocation agreement" for various editions of a book. See U.S. Br. 9 (discussing *Quality King*, 523 U.S. at 148).

That dictum, which did *not* speak to where works are "made," but instead referred to territorially "exclusive * * * distribution rights," 523 U.S. at 148, is so universally misunderstood now that *only* a decision by this Court can clarify its meaning. Indeed, even judges who believe that "traditional tools of statutory interpretation" dictate that "the first-sale doctrine [is] applicable when a copy of a copyrighted work is manufactured abroad and imported" nonetheless think themselves foreclosed from so holding by that dictum. *Pearson Educ., Inc.* v. *Liu*,

656 F. Supp. 2d 407, 411 (S.D.N.Y. 2009), appeal pending, No. 10-705 (2d Cir.). Far from being well settled, the scope of the first-sale doctrine remains as confused as it was when the Third Circuit two decades ago "confess[ed] some uneasiness with [a] construction of 'lawfully made' that turned on the place of manufacturing." *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988). Though the brief of the United States ultimately recommends against review by this Court, its brief is replete with examples of why such review is necessary.

1. To the extent that the United States offers any real explanation for reversing its twelve-year-old position, it is that, because of *Quality King*, its prior reading of Section 109(a) "would disserve Congress's intent [in amending Section 602(a)] to extend the importation ban beyond piratical copies." U.S. Br. 11 n.4. That belief, however, is belied by the unmentioned – yet dispositive – discussion in *Quality King* where the Court observed that "the first sale doctrine * * * would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." 523 U.S. at 146-147. This is true *even if* "lawfully made under this title" is construed to include non-piratical goods made abroad by a U.S. copyright holder, because Section 602(a)'s expansion would still have independent effect on "nonowners" of such goods. Though the Solicitor General asserts without substantiation that this would make "the category of copies whose importation could be blocked under Section 602(a) * * * extremely small," U.S. Br. 14, the historical rationale for Section 602(a) was to prohibit importation of just that class, large or small. See Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion*

of Right Doctrine, 13 SANTA CLARA COMP. & HIGH TECH. L.J. 445, 461 n.107 (1997).

2. At the same time, the Solicitor General overstates the implication of the Court's recognition that "§ 602(a) applies to a category of copies that are neither piratical nor 'lawfully made under this title'," because some copies are "'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Quality King*, 523 U.S. at 147. There is no dispute that *some* goods made abroad are *not* lawfully made under the United States Copyright Act, but rather are lawfully made under the intellectual property law of some other country. But it does not follow – and the Court did *not* say – that these categories are mutually exclusive or that certain goods manufactured abroad cannot at the same time be "lawfully made under" the United States Copyright Act.[1] For example, it would be a natural use of language to conclude that a copyrighted-design-bearing Omega watch made in Switzerland for the express purpose of being sold in the United States was *both* lawfully made under Swiss law *and* lawfully made under U.S. copyright law, yet the Solicitor General assumes without explanation that it must be one or the other, not both. Petitioner's reply brief (at 4) made the point that there is no inherent inconsistency between being lawfully made under the law of another country and being lawfully made under U.S. law, yet the Solicitor Gen-

[1] Were it otherwise, *none* of the approximately *1 billion* printed materials imported into the United States each year – nearly a third of all books purchased in the United State annually – would be subject to the first-sale doctrine. See Harmonized Tariff Schedule of the United States § 4901 (2010) (2005 imports); BOOK INDUSTRY STUDY GROUP, INC., BOOK INDUSTRY TRENDS 2006 at 13 (2005 total consumption).

eral offers no explanation for her contrary assumption.

In both briefing and oral argument in *Quality King*, the petitioner there called the Court's attention to this point. Brief for Petitioner at 27-28 (No. 96-1470) (noting that "a lawful copy made by an unrelated entity solely pursuant to a *foreign* copyright, *without the express or implicit authorization of the U.S. copyright owner*, is arguably not made 'under this title' within the meaning of Section 109(a)," even though "a copy made by, or under the authorization of, the United States copyright holder, would doubtless be 'lawfully made under this title' *regardless of whether it is made in this country or abroad*") (emphasis added); *Quality King* Oral Argument Tr. 12-14 (same). At argument, Justices of this Court – including the eventual author of the *Quality King* opinion – showed great interest in the situation in which there are *different copyright holders* in different countries. *Id.* at 13-14, 35-36. Only Justice Souter asked any questions about the place of manufacture. *Id.* at 15 ("But if the contract is silent, your answer is the geography of manufacture is irrelevant."). The Court's opinion makes *no* explicit reference to the place of manufacture.

Nothing in the Court's opinion indicated a belief that the category of goods lawfully made under the law of a foreign country *and not* lawfully made under the United States Copyright Act was any broader than petitioner's example of copies made by a foreign party without authorization to do so under the Copyright Act. Rather, the Court "mention[ed] one example" from the drafting history "simply to demonstrate that the category is not a hypothetical one." 523 U.S. at 147. In discussing that example, the Court wrote:

> If the author of [a] work gave the exclusive United States distribution rights – enforceable

> under the Act – to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a).

Id. at 148. This example speaks only about rights granted and the grantor of those rights, and *not* about place of manufacture. The Court did *not* say that books made by the publisher of the United States edition would be "lawfully made under this title" *only if they are printed in the United States.*

In a footnote, the Court indicated that its example was drawn from drafting-committee discussions about concerns raised by the book and record industries. *See Quality King*, 523 U.S. at 148 n.20. Those discussions addressed concerns that U.S. copyright holders faced competition from imported copies made abroad by *unrelated foreign copyright holders* without express or implicit authorization to make copies under the Copyright Act.[2] Accordingly, neither those discussions, nor the Court's illustration based on them, supports the meaning of Section 109(a) that both the Solicitor General and Omega now advance.

3. Like respondent Omega, the Solicitor General also points to the phrase "if this title had been applicable" in Sections 602(b) and 602(a)(2). The Solicitor General asserts that those importation-related sec-

[2] See Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* at 119 (Comm. Print 1964) [hereinafter Copyright Law Revision] (statement of Mr. Pilpel); *id.* at 209 (statement of Mr. Manges); *id.* at 212 (statement of Mr. Pilpel); *id.* at 260 (statement of American Book Publishers Council, Inc.).

tions recognize a general proposition that the Copyright Act is not applicable abroad, and superimposes that conclusion on Section 109(a) – which is not about importation – to conclude that a good made abroad can therefore never be "lawfully made under this title" within the meaning of Section 109(a). U.S. Br. 11-13. The legislative history, however, shows quite the opposite.

Commenting on an earlier version of the bill that became Section 602(b), Copyright Revision Committee member Goldberg noted his concern "that the present language, 'if this title had been applicable,' somewhat obscures in general terms an issue which is rather specific." Copyright Law Revision at 207. The *specific* issue meant to be addressed in Section 602(b) was that it is prohibited to import goods whose making *would* have "constituted an infringement of copyright had such making taken place in the United States." *Ibid.* Thus, as other legislative history of the 1976 Act notes, Section 602(b) is simply meant to prohibit the importation of copies "that were unlawful in the country where they were made" *or* copies that, "although made lawfully under the domestic law of that country," are not considered lawfully made under Title 17. S. Rep. No. 93-983, 93rd Cong., 2d Sess., 200 (1974). In contrast, and as a natural corollary, Section 602(b) expressly contemplates that it is *not* prohibited to import goods of the exact character at issue in this case – goods made by the U.S. copyright holder abroad – because making those goods would *not* have "constituted an infringement of copyright had such making taken place in the United States." Copyright Law Revision at 207. By no alchemy can Congress's conscious decision to *permit* importation of goods made by a U.S. copyright holder abroad be transmuted into a decision to *limit* application of the first-sale doctrine to

such goods. The Solicitor General's position, in other words, has the policy of Congress backwards.

Because Sections 602(b) and 602(a)(2) use the phrase "if this title had been applicable" in the same sentence as the word "making," the Solicitor General insists that "lawfully made under this title" must mean the same thing as "lawfully made in a place where this title is applicable." That leap is unsustainable. Although a legislator perhaps could use the phrases "where this title is applicable" and "under this title" synonymously, there is not one scintilla of support for the proposition that anyone involved in drafting the Copyright Act in 1976 – or even Section 602(a)(2) in 2008 – *did* use those phrases synonymously. Quite the contrary, the petition (at 10-12) cites three examples (17 U.S.C. § 110, 17 U.S.C. § 1006(a)(1)(A), and former 17 U.S.C. § 601) in which Congress used the phrase "under this title" in a manner that cannot possibly have meant "where this title is applicable." Indeed, the United States itself recognized in 1997 that petitioner's reading of Section 109(a) is "consistent with the legislative history." Brief for the United States as *Amicus Curiae* at 30 n.18 (No. 96-1470).

In the end, neither the Solicitor General nor Omega has cited even one non-Section 109 example of a situation in which "under this title" could even plausibly mean "where this title is applicable," and *a fortiori* neither has any examples in which "lawfully made under this title" could plausibly mean "lawfully made where this title is applicable," *i.e.*, "made in the United States."

4. The Solicitor General further confuses matters by asserting – incorrectly – that petitioner "draws a sharp distinction between copies produced by the United States copyright owner itself and copies made by another entity with the copyright own-

er's authorization." U.S. Br. 16. Petitioner draws no such distinction. Rather, consistent with the "basic principle of copyright law" cited by the United States, *ibid.* (citing 17 U.S.C. § 106), copies made abroad by *either* the U.S. copyright holder *or* a separate entity authorized by that holder to make copies are subject to the first-sale doctrine.

Respondent Omega, in contrast, noted that one implication of petitioner's reading of Section 109(a) is that a copyright holder might try to assign its U.S. and foreign copyrights as between two distinct entities so that the former might try to prevent importation of the latter's goods into the United States. Br. in Opp. 10-12. As explained in the reply brief (at 5-6), however, such behavior is entirely speculative, far from costless, and not at all unprecedented in intellectual property law. Particularly in light of the concerns of the drafters of the Copyright Act of 1976, which as just noted were directed towards *unrelated foreign copyright holders*, a later court might hold that such a division of rights does not foreclose application of the first-sale doctrine. Or it might not. In any event, that is not the case here and future courts can confront that scenario if and when they are asked to.

5. The Solicitor General concedes that her position leads to "the anomalous result," with "no evident policy justification," that "a copyright holder can exercise its statutory right to bar unauthorized importation *only* when the relevant copies are made abroad," thus "provid[ing] an artificial incentive for outsourcing." U.S. Br. 19. But like respondent she takes comfort in that fact "that the most serious pol-

icy concerns described above have [not] actually materialized." *Ibid.*[3]

The Solicitor General barely acknowledges, let alone justifies, the fact that the only reason some negative effects have not yet occurred is that the Ninth Circuit applies the first-sale doctrine to goods *even if they are made abroad*, so long as there has been a "first sale" in the United States. *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477, 481 n.8 (9th Cir. 1994). As the reply brief argues in detail (at 6-7), that expedient exception has absolutely no basis in the Copyright Act. As one court observed, adopting the Ninth Circuit's judicially created exception amounts to "disregarding an express holding of the Supreme Court," because the exception "conflicts directly with *Quality King*'s holding that place of sale is irrelevant for first-sale purposes." *Pearson Educ., Inc.* 656 F. Supp. 2d at 414.

In light of the Solicitor General's complete reliance on this exception to brush aside "legitimate concerns" noted by *amici*, U.S. Br. 18, it is troubling that no attempt was made to justify the Ninth Circuit's exception, without which *no one* defends limiting *Quality King* to goods manufactured in the United States. It is simply another reason why this Court's review is both timely and necessary.

In this case – as in *every* case of statutory interpretation – "Congress remains free to amend the"

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[3] It is not clear that the Solicitor General is justified in her confidence that the Ninth Circuit's construction of the first-sale doctrine is not yet causing American job losses. A new study by the Economic Policy Institute, reported in (among other places) the Wall Street Journal on March 23-24, 2010, shows that the United States lost 2.4 million jobs to China in 2001-2008. No study proves causation between copyright doctrine and job losses, but no study disproves it either.

relevant statute. U.S. Br. 19. That truism is no reason to deny review. Misinterpretation of a dictum in *Quality King* – by lower courts and now by the Executive Branch – is what has led to unnecessary anomalies mitigated only by atextual exceptions. The proper branch to correct that misinterpretation is not the Legislative but the Judicial Branch.

CONCLUSION

For the foregoing reasons, as well as those stated in the petition and prior briefs, the petition for a writ of certiorari should be granted.

Respectfully submitted.

ROY T. ENGLERT, JR.
renglert@robbinsrusssell.com
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

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AMICUS CURIAE BRIEF

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No. 08-1423

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION, PETITIONER

v.

OMEGA, S.A.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

NEAL KUMAR KATYAL
Acting Solicitor General
Counsel of Record

TONY WEST
Assistant Attorney General

MALCOLM L. STEWART
Deputy Solicitor General

MELISSA ARBUS SHERRY
Assistant to the Solicitor General

SCOTT R. MCINTOSH
MARK R. FREEMAN
Attorneys

Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

1035

QUESTION PRESENTED

Section 602(a)(1) of Title 17 generally prohibits the "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States." Under 17 U.S.C. 109(a), however, "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), this Court held that, where Section 109(a) applies, it provides an exception to the general ban on the unauthorized importation into the United States of copies of copyrighted works. The question presented in this case is as follows:

Whether a copy made outside the United States by the owner of the United States copyright is "lawfully made under this title [*i.e.*, Title 17]" and is therefore covered by Section 109(a)'s exception to the general ban on unauthorized importation.

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INTEREST OF THE UNITED STATES

The question presented in this case concerns the circumstances under which copies of a copyrighted work may be imported into this country and subsequently distributed in the United States without the authorization of the United States copyright owner. The United States Copyright Office, which administers the Copyright Act, see 17 U.S.C. 701, and which contributed significantly to Congress's drafting of the relevant provisions of the Copyright Act of 1976, 17 U.S.C. 101 *et seq.*, has a substantial interest in the resolution of that question. This case also implicates questions of concern to other federal agencies charged with administering federal laws governing intellectual property and importation of goods. At the invitation of the Court, the United

States filed a brief as amicus curiae at the petition stage of this case.

STATEMENT

1. Section 106 of Title 17 provides that, "[s]ubject to sections 107 through 122," a copyright owner "has the exclusive rights to do and to authorize" various enumerated activities, including "to distribute copies or phonorecords of the copyrighted work to the public," 17 U.S.C. 106(3). Section 602(a)(1) provides that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies * * * of a work that have been acquired outside the United States is an infringement of the [owner's] exclusive right to distribute copies" granted by Section 106(3). 17 U.S.C. 602(a)(1).[1] And Section 109(a) states that, "[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. 109(a).

Section 109(a) is the current codification of the "first sale doctrine" initially recognized by this Court in *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908). The

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[1] In October 2008, shortly after the court of appeals issued the decision below, Congress amended Section 602 of the Copyright Act and added a separate private cause of action against importers and exporters of piratical copies. See Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b), 122 Stat. 4259. The legislation also reorganized the existing provisions of Section 602. The ban on unauthorized importation specifically at issue in this case, which was formerly codified at 17 U.S.C. 602(a), was redesignated as Section 602(a)(1). All citations in this brief are to the amended version of the statute. See Sup. Ct. R. 34.5.

Court in *Bobbs-Merrill* held that the copyright owner's exclusive right to "vend" a copyrighted book did not encompass the right to place restrictions on the resale of the book after ownership had been transferred. *Id.* at 349-351; see *Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. 135, 140-141 (1998) (*Quality King*) (discussing *Bobbs-Merrill*).

In *Quality King*, this Court held that Section 109(a) establishes an exception to Section 602(a)(1)'s general ban on unauthorized importation. See 523 U.S. at 143-152. Because the imported copies at issue in *Quality King* were manufactured in the United States by the copyright owner, see *id.* at 138-139, the case did not present the question whether copies produced outside this country could be "lawfully made under this title" within the meaning of Section 109(a). See *id.* at 154 (Ginsburg, J., concurring).

2. Respondent Omega, S.A., a Swiss corporation, manufactures wristwatches in Switzerland and sells them internationally, including in the United States, through a network of authorized distributors and retailers. Pet. App. 3a. On the back of each watch, respondent engraves a small logo, which it calls the "Omega Globe Design," that is registered as a copyrighted work with the United States Copyright Office. *Ibid.*

Respondent first sold some of the watches at issue here to an authorized distributor overseas under an agreement limiting resale to specific territories outside the United States. J.A. 27; see Resp. Br. 3-4. Unidentified parties subsequently purchased the watches and imported them into the United States. After importation, petitioner Costco Wholesale Corporation purchased the watches from a supplier in New York and resold them to consumers in California. Pet. App. 3a-4a; J.A.

54-58. Although respondent authorized the initial foreign sale of the watches, it did not authorize their importation into the United States or the subsequent domestic resales. Pet. App. 4a; see *id.* at 17a.

Respondent brought this suit for copyright infringement under 17 U.S.C. 106(3) and 602(a)(1) and moved for summary judgment. Pet. App. 4a. Petitioner filed a cross-motion for summary judgment, arguing that, under Section 109(a), respondent's voluntary first sale of the watches exhausted its right to control their subsequent distribution or importation. *Ibid.* The district court granted summary judgment for petitioner without explanation. *Id.* at 18a-19a.

3. The court of appeals reversed and remanded for further proceedings. Pet. App. 1a-17a. The court explained that this Court in *Quality King* had distinguished between copies lawfully made under Title 17 and copies lawfully made under foreign law. *Id.* at 13a-15a. Relying on that distinction, the court concluded that "copies covered by the phrase 'lawfully made under [Title 17]' in [Section] 109(a)" are those made "*within the United States*, where the Copyright Act applies." *Id.* at 14a (first set of brackets in original).

The court of appeals acknowledged that, taken to its logical extreme, the court's construction of Section 109(a) could allow a copyright owner to "exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland." Pet. App. 16a. Earlier Ninth Circuit cases had "resolved this problem," the court explained, by holding that any domestic sale authorized by the copyright owner would trigger the application of Section 109(a), even when the copy in question was lawfully made overseas. *Ibid.* Because respondent had not authorized any of the domestic

sales in this case, the court of appeals found it unnecessary to decide whether those holdings survived *Quality King*. *Id.* at 17a.

SUMMARY OF ARGUMENT

1. In the Copyright Act of 1976, Congress enacted Section 602(a)(1), which broadened protections against unauthorized importation of copyrighted works to encompass copies that are lawfully made. In *Quality King*, this Court held that Section 109(a) provides an exception to Section 602(a)(1)'s general ban on the unauthorized importation of copyrighted works. 523 U.S. at 145-154. The Court emphasized, however, that Section 602(a)(1) would retain significant operative effect because Section 109(a) applies only to copies "lawfully made under this title," not to copies lawfully made under foreign law.

Consistent with that analysis, and to ensure that Section 602(a)(1) retains meaningful operative force, the phrase "lawfully made under this title" in Section 109(a) should be construed to mean lawfully made "pursuant" or "subject" to Title 17, *i.e.*, where Title 17 applies. Because Title 17 does not apply extraterritorially, a copy manufactured abroad and imported into the United States without the copyright owner's authorization is not covered by Section 109(a).

2. Petitioner argues that Section 109(a) encompasses any copy "made in accordance with standards enumerated in the Copyright Act," Br. 35, even if the copy's creation is not subject to United States law, see *id.* at 35 n.16. Read in isolation, the phrase "lawfully made under this title" could bear that meaning. That proposed construction of Section 109(a), however, is inconsistent with the larger statutory context because it

would render Section 602(a)(1) largely superfluous, and it ignores the *Quality King* Court's careful distinction between copies lawfully made under Title 17 and copies lawfully made under foreign law.

3. Petitioner argues that the application of Section 109(a) cannot turn on the place of manufacture because the phrase "lawfully made under this title" is used in other Title 17 provisions where it cannot reasonably be read to exclude foreign-made copies. But the principle that the same words should ordinarily be given the same meaning in different provisions of a given statute is simply an interpretive guide, not an inflexible rule. In any event, petitioner is wrong in arguing that the other Title 17 provisions would be rendered absurd if they were read as limited to copies made in the United States.

4. Petitioner's policy arguments provide no sound basis for adopting its reading of Section 109(a). Some of the impacts that petitioner identifies are an unavoidable consequence of Congress's decision in 1976 to expand Section 602's ban on unauthorized importation beyond piratical copies. And some of the adverse consequences would result even under petitioner's interpretation of Section 109(a). Petitioner contends that the court of appeals' decision would allow copyright owners to restrict the downstream distribution of foreign-made goods even after the copyright owner has authorized the importation or first domestic sale of the relevant copies. The Copyright Act can reasonably be read to prevent that result, however, and petitioner identifies no instance in which a copyright owner has attempted to exercise that sort of continuing control over foreign-made copyrighted goods.

ARGUMENT

A COPY THAT IS MADE OUTSIDE THE UNITED STATES IS NOT "LAWFULLY MADE UNDER THIS TITLE" WITHIN THE MEANING OF 17 U.S.C. 109(a)

The question presented in this case concerns the proper construction of the phrase "lawfully made under this title" in 17 U.S.C. 109(a). Petitioner argues that the phrase means "made in accordance with standards enumerated in the Copyright Act," Br. 35, even if the creation of the copy was not subject to United States law, see *id.* at 35 n.16. Respondent contends (Br. 13) that the phrase means that "the making of the copy is both *governed by* and *consistent with* the Copyright Act."

Read in isolation, the phrase "lawfully made under this title" could reasonably bear either of those meanings. But "the words of a statute must be read in their context and with a view to their place in the overall statutory scheme." *FDA* v. *Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 132-133 (2000) (quoting *Davis* v. *Michigan Dep't of Treasury*, 489 U.S. 803, 809 (1989)). Because petitioner's expansive reading of Section 109(a) would render largely ineffectual Congress's effort to protect United States copyright owners against unauthorized importation of copyrighted works, see 17 U.S.C. 602(a)(1), the larger statutory context indicates that Section 109(a) does not encompass copies created abroad. That narrower construction of Section 109(a) is strongly supported by *Quality King*, in which this Court emphasized that Section 602(a)(1) will have significant practical effect *because* Section 109(a) does not cover copies "lawfully made" under the law of another country.

A. To Effectuate Congress's Purpose In Enacting Section 602(a)(1), The Phrase "Lawfully Made Under This Title" In Section 109(a) Is Best Understood To Mean "Lawfully Made" Where Title 17 Is Applicable

In *Quality King*, this Court held that Section 109(a) provides an exception to Section 602(a)(1)'s general ban on the unauthorized importation of copyrighted works. *Quality King Distribs., Inc.* v. *L'anza Research Int'l*, 523 U.S. 135, 145-154 (1998). In so holding, the Court emphasized that Section 602(a)(1) would retain significant practical effect because, *inter alia*, it would prohibit unauthorized importation of copies "'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147. To effectuate Congress's intent in enacting Section 602(a)(1), and in light of this Court's decision in *Quality King*, the phrase "lawfully made under this title" should be interpreted to mean lawfully made "pursuant" or "subject" to Title 17, *i.e.*, where Title 17 is applicable.

1. Section 602(a)(1) represented a significant departure from the treatment of imported works under prior law. The Copyright Act of 1909, as codified in 1947, directed the Customs Service to block the importation only of "piratical copies of any work copyrighted in the United States." 17 U.S.C. 106 (1976); see also 17 U.S.C. 107 (1976). This "earlier prohibition is retained in [Section] 602(b) of the present Act." *Quality King*, 523 U.S. at 146; see 17 U.S.C. 602(b) (prohibiting the importation of copies whose creation "would have constituted an infringement of copyright if this title had been applicable"). Until the Copyright Act of 1976, copyright owners lacked the ability under the copyright laws to control "gray-market" imports—lawfully made copies intended

for distribution in foreign countries but imported into the United States without the authorization of the copyright owner. Cf. *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281, 285 (1988) (discussing gray-market trademarked goods).

When the copyright revision process commenced in 1961, the Register of Copyrights received an industry proposal to expand the Copyright Act's importation restrictions. See House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 125-126 (Comm. Print 1961). The proposal focused on agreements "to divide international markets," whereby a "foreign publisher agrees not to sell his [foreign] edition in the United States, and the U.S. publisher agrees not to sell his [United States] edition in certain foreign countries." See *id.* at 125. Although the Register initially suggested that "the prohibition against imports of piratical copies" should not be expanded "to authorized copies covered by an agreement of this sort," *id.* at 126, industry representatives continued to advocate their "proposal to enforce private agreements to divide international markets by means of a statutory prohibition against importation," House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision Pt. 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 193 (Comm. Print 1963) (*Copyright Law Revision Pt. 2*); see, *e.g.*, *id.* at 212-214, 232, 275, 327. The general concern expressed was that foreign publishers bound by market allocation agreements were lawfully reproducing and selling copies abroad, but that third party wholesalers and jobbers, not bound by the agreements, were then importing the

foreign-made copies into the United States. *Id.* at 213, 232; House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Pt. 3: Preliminary Draft for Revised U.S. Copyright Law & Discussions and Comments on the Draft* 209, 260 (Comm. Print 1964).

The Copyright Office ultimately endorsed legislation that would expand the importation restrictions to encompass "foreign copies that were made under proper authority." See House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Pt. 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 203 (Comm. Print 1964) (*Copyright Law Revision Pt. 4*). The Register explained that the provision would bar importation if, "for example, * * * the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Pt. 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 150 (Comm. Print 1965) (*Copyright Law Revision Pt. 6*). The House and Senate reports accompanying the Copyright Act of 1976 discuss the expanded importation restrictions in the same terms. See H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169 (1976) (*1976 House Report*) ("Section 602 * * * deals with * * * unauthorized importation of copies * * * that w[er]e lawfully made."); *id.* at 170 (Section 602 covers a situation "where the copies or phonorecords were lawfully made but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights."); S. Rep. No. 473, 94th Cong., 2d Sess. 151-152 (1976) (*1976 Senate Report*) ("unauthorized importation is an

infringement merely if the copies or phonorecords 'have been acquired abroad'").

2. In *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908), this Court held that a copyright owner's exclusive right to "vend" a copyrighted book did not encompass the right to restrict the terms on which lawful purchasers could resell the items. *Id.* at 349-351; see *Quality King*, 523 U.S. at 140-141 & n.5. In the Copyright Acts of 1909 and 1947, Congress confirmed that principle (which came to be known as the "first sale doctrine") by providing that "nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1084; Copyright Act of 1947, ch. 391, § 27, 61 Stat. 660 (same). This provision was added to "make it clear that there is no intention to enlarge in any way the construction to be given to the word 'vend' in the first section of the bill." H.R. Rep. No. 2222, 60th Cong., 2d Sess. (1909). As the Court explained in *Quality King*, the "point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." 523 U.S. at 152.

In 1976, at the same time Congress adopted the expanded importation restrictions in Section 602(a)(1), it enacted Section 109(a) in its current form, which provides that

> [n]otwithstanding the provisions of section 106(3) [establishing a copyright owner's right of exclusive distribution], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without

> the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. 109(a). The legislative reports confirm in general terms Congress's intent to retain the first sale principle recognized in *Bobbs-Merrill*. See, *e.g.*, *1976 Senate Report* 71; *1976 House Report* 79; see also *Quality King*, 523 U.S. at 152 ("There is no reason to assume that Congress intended either [Section] 109(a) or the earlier codifications of the doctrine to limit its broad scope.").

3. The Court in *Quality King* addressed the "narrow[]" question "whether the 'first sale' doctrine endorsed in [Section] 109(a) is applicable to imported copies." 523 U.S. at 138. The labels at issue in *Quality King* were manufactured in the United States, see *id.* at 139; *id.* at 154 (Ginsburg, J., concurring), and the copyright owner (L'anza) did not dispute that the labels were "lawfully made under this title" within the meaning of Section 109(a), see *id.* at 143. Rather, L'anza argued that Section 602(a)(1)'s ban on unauthorized importation of copyrighted materials is not subject to Section 109(a). See *id.* at 143, 145. The Court rejected that contention. See *id.* at 144-145. Because the relevant copies were made within the United States, the Court had no occasion squarely to decide the issue presented here—*i.e.*, whether Section 109(a) encompasses copies made outside this country by the United States copyright owner.

The Court's opinion in *Quality King* does, however, provide significant guidance as to the proper resolution of that issue. L'anza (supported by the United States as amicus curiae) argued that applying Section 109(a) to unauthorized imports would thwart Congress's intent in enacting Section 602(a)(1) to expand the importation right beyond piratical copies. See *Quality King*, 523

U.S. at 145, 146 & n.17. In rejecting that contention, the Court explained that Section 602(a)(1) sweeps more broadly than Section 109(a) because, *inter alia*, Section 602(a)(1) "applies to a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Id.* at 147; see *id.* at 148.

In elaborating on that point, the Court discussed "one example" that was noted in the deliberations leading up to the 1976 Act. See *Quality King*, 523 U.S. at 147. The Court explained that "[e]ven in the absence of a market allocation agreement between, for example, a publisher of the United States edition and a publisher of the British edition of the same work, each such publisher could make lawful copies." *Id.* at 148. The Court observed that "[i]f the author of the work gave the exclusive United States distribution rights * * * to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of [Section] 109(a)." *Ibid.*

The Court did not further explain its conclusion that copies made with the author's consent by the "publisher of the British edition" would not be "lawfully made under this title" for purposes of Section 109(a). *Quality King*, 523 U.S. at 148. It is well established, however, that the Copyright Act does not apply outside the United States. See *United Dictionary Co.* v. *G. & C. Merriam Co.*, 208 U.S. 260, 264-265 (1908); 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*

§ 17.02, at 17-19 (Matthew Bender rev. ed. 2009) (*Nimmer on Copyright*); Pet. Br. 41 (not contesting that Copyright Act does not apply abroad). In light of that settled background understanding, the most natural explanation of this Court's discussion is that copies made by the "publisher of the British edition" would not be "lawfully made under" Title 17 because they would be produced in a place where Title 17 does not apply.[2]

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[2] Aside from Section 602(a)(1)'s application to copies lawfully made under foreign law, the Court in *Quality King* identified two additional functions that Section 602(a)(1) could serve notwithstanding Section 109(a). First, the Court observed that "even if [Section] 602(a) did apply only to piratical copies, it at least would provide the copyright holder with a private remedy against the importer, whereas the enforcement of [Section] 602(b) is vested in the Customs Service." 523 U.S. at 146. In 2008, however, Congress enacted 17 U.S.C. 602(a)(2), which establishes a private civil action against unauthorized importation of copies "the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable." If Section 602(a)(1) were limited to the same class of copies described in Section 602(a)(2), as petitioner advocates, Congress's conferral of a private right of action would no longer add anything of substance to the protections afforded copyright owners by neighboring Copyright Act provisions. Second, the Court noted that Section 109(a) would not bar a suit under Section 602(a)(1) "against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." *Quality King*, 523 U.S. at 146-147 & n.19. Petitioner suggests that "the historical rationale for Section 602(a) was to solve just that problem," Br. 33 n.15, but the broad statutory text and a fair reading of the legislative history make clear this was not Congress's principal concern. Rather, as discussed, Congress's unambiguous intent in enacting Section 602(a)(1) was to afford copyright owners an effective means of segmenting international markets for copyrighted works. That purpose can be adequately achieved only if Section 602(a)(1)'s operative effect extends to persons who have acquired ownership of the relevant copies. See 2 *Nimmer on Copyright* § 8.12[B][6][c] at 8-178.4(6) n.111.61 (suggesting that the number of

That inference is strongly supported by the *Quality King* Court's evident assumption that a particular copy may be made *either* "under" Title 17 *or* "under" the law of another country, but not "under" both. The Court observed, for example, that Section 602(a)(1) "encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." 523 U.S. at 147; see *id.* at 148 (explaining that Section 602(a)(1) "encompasses copies that are not subject to the first sale doctrine—*e.g.*, copies that are lawfully made under the law of another country"). If the phrase "made under" means "made pursuant or subject to" a particular body of law, that assumption makes perfect sense: the legality of a copy's creation depends only on the law of the place where the copy is made. But if (as petitioner contends) the phrase "made under" means "made in a manner consistent with the substantive requirements" of the relevant law, the Court's "either-or" approach would be unfounded, since the creation of a particular copy could easily comply with the substantive requirements imposed by many different countries. In this case, for example, petitioner could not reasonably dispute that the watches were "lawfully made under" the law of Switzerland, where their creation occurred. Petitioner's contention that the copies at issue here were "lawfully made under" both Title 17 and Swiss law is inconsistent with the *Quality King* Court's statement that Section 109(a) does not en-

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importation cases involving bailees, consignees, and the like is likely to be extremely small).

compass "copies that are lawfully made under the law of another country." *Id.* at 148.[3]

If, as *Quality King* indicates, the phrase "lawfully made under this title" in Section 109(a) means "lawfully made pursuant or subject to Title 17," the copies at issue here clearly fall outside Section 109(a)'s coverage. United States law simply has no bearing on the legality of respondent's conduct in Switzerland. See Pet. Br. 35 n.16 (conceding that the law of the place of manufacture "governs production").

B. Petitioner's Alternative Construction Of Section 109(a) Is Not Persuasive

1. Petitioner argues that Section 109(a) encompasses any copy "made in accordance with standards enumerated in the Copyright Act," Br. 35, even if United States law does not govern the making of the copy, see *id.* at 35 n.16. On this view, a copy made by or with the authorization of the United States copyright holder anywhere in the world is "lawfully made under [Title 17]" within the meaning of Section 109(a). Read in isolation,

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[3] The leading commentators on copyright law have understood *Quality King* in the manner described in the text. See 2 *Nimmer on Copyright* § 8.12[B][6][c] at 8-178.4(10) (discussing *Quality King* and concluding that the Copyright Act "should still be interpreted to bar the importation of gray market goods that have been manufactured abroad"); 4 William F. Patry, *Patry on Copyright* § 13:44, at 13-96 (2010) (The Copyright Act "bars only the importation of copies that were acquired outside the United States and that were not 'lawfully made under this title,' i.e., were not made in the United States."); 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1, at 7:144 (3d ed. Supp. 2007) (concluding that, under *Quality King*, "the first sale defense is unavailable to importers who acquire ownership of gray market goods made abroad and to resellers who acquire ownership in the United States of copies lawfully made abroad but unlawfully imported into the United States").

Section 109(a) could reasonably be construed in the manner that petitioner advocates. Indeed, in *Quality King*, the United States as amicus curiae advocated essentially that reading, arguing that the application of Section 109(a) does not turn on the place of manufacture, see Gov't Br. at 29-30, *Quality King*, *supra* (No. 96-1470), but that Section 109(a) instead encompasses "any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17," *id.* at 30 n.18 (citation omitted).

In light of this Court's decision in *Quality King*, however, the construction of Section 109(a) that the United States advanced in that case, and that petitioner advocates here, is no longer tenable. As explained above, the Court in *Quality King* drew a sharp distinction between copies "made under" Title 17 and copies "made under" foreign law, and it assumed that any particular copy would be "made under" only one legal regime. That analysis makes sense only if the phrase "made under this title" refers to copies to which Title 17 is *applicable—i.e.*, copies created in the United States.

In addition, because the construction of an ambiguous statutory provision may depend in part upon the larger statutory context, the *Quality King* Court's holding that Section 109(a) limits Section 602(a)(1) bears directly on the proper reading of Section 109(a) itself. If the Court in *Quality King* had agreed with L'anza and the United States, and had held that Section 109(a) does not limit a copyright owner's authority to restrict importation of copyrighted goods (see p. 12, *supra*), petitioner's expansive reading of Section 109(a) could be adopted without rendering inefficacious Section 602(a)(1)'s ban on unauthorized importation. But given

the Court's holding that Section 109(a) (where it applies) provides an exception to Section 602(a)(1), see 523 U.S. at 145-152, construing Section 109(a) in the manner petitioner advocates would largely negate Congress's decision to extend the importation ban beyond piratical copies. Settled principles of statutory construction counsel that such a reading should be rejected, and that the Copyright Act should instead be construed to give effect to all of its provisions. See, *e.g.*, *United States ex rel. Eisenstein* v. *City of New York*, 129 S. Ct. 2230, 2234 (2009).

2. Petitioner purports to accept the *Quality King* Court's conclusion that Section 109(a) does not encompass copies made under the law of a foreign country. Petitioner also appears to recognize that, unless *some* meaningful category of lawfully made copies falls outside Section 109(a), that provision will effectively negate Congress's decision to extend Section 602's ban on unauthorized importation beyond piratical copies. Petitioner's efforts to identify that category, however, have been both inconsistent and unpersuasive.

At the petition stage of this case, petitioner appeared to draw a sharp distinction between copies produced abroad by the United States copyright owner itself and copies made abroad by another entity with the copyright owner's authorization. See Pet. 13-14; Reply Br. 2. As the United States explained (see Gov't Pet. Stage Amicus Br. 16), that distinction is inconsistent with basic principles of copyright law. "[T]he owner of copyright under [Title 17] has the exclusive rights to do *and to authorize*" the prerogatives that attend copyright ownership, including the reproduction of the copyrighted work. 17 U.S.C. 106 (emphasis added); 17 U.S.C. 106(1). In determining whether copies were "lawfully made un-

der this title," there is consequently no sound reason to distinguish between copies made by the copyright owner and copies made in like circumstances by another entity with the copyright owner's authorization.

In its brief on the merits, by contrast, petitioner contends that all copies made by *or* with the authorization of the United States copyright owner are "lawfully made under this title" within the meaning of Section 109(a). Petitioner now posits a different distinction—between a copy produced abroad by the United States copyright owner itself or another entity with that copyright owner's authorization, and a copy produced abroad by an "*unrelated foreign copyright holder*." Br. 12, 34-40. Although the meaning of the italicized phrase is not entirely clear, petitioner appears to contemplate situations in which an American author assigns his United States copyright to one publisher and his foreign copyright to another. Under petitioner's view, copies produced abroad by the second publisher would not be "lawfully made under this title" because they would be made without the authorization of the current United States copyright owner (*i.e.*, the author's domestic assignee).

If petitioner's theory were accepted, the application of Section 109(a) to unauthorized imports would depend on fine details of the relationships between various domestic and foreign actors. In the situation described above, for example, if the United States author retained his copyrights, while licensing United States and foreign publishers to reproduce the work in their respective countries, the copies created abroad would be "lawfully made under [Title 17]" as petitioner construes that phrase because they would be made with the authorization of the United States copyright owner. Nothing in *Quality King* supports petitioner's view that the line

between copies "lawfully made under [Title 17]" and copies "lawfully made under the law of another country" (523 U.S. at 148) turns on the United States copyright owner's choice between assignment and licensing as his means of authorizing copies to be made abroad.

The legislative history appears to be similarly devoid of any suggestion that such nuances would determine the legality of unauthorized importation. Industry representatives spoke in more general terms of a United States publisher "enter[ing] into a contract with a British publisher to acquire exclusive U.S. rights for a particular book," *Copyright Law Revision Pt. 2* 212; a "foreign publisher agree[ing] with a U.S. publisher not to sell his edition of a particular book in the United States," *id.* at 232; a "foreign publisher agree[ing] not to sell his edition in the United States, and the U.S. publisher agree[ing] not to sell his edition in certain foreign countries," *id.* at 327; and a "British publisher contract-[ing] with an American publisher to give him exclusive American rights to a work," *Copyright Law Revision Pt. 4* 260. And the Register of Copyrights explained that the provision would bar importation if, "for example, * * * the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." *Copyright Law Revision Pt. 6* 150.

There is consequently no basis for petitioner's contention (Br. 38, 39) that, in expanding Section 602's restrictions on unauthorized importation to encompass lawfully-made copies, Congress was concerned with who was *making* the copies, or about "competition from unrelated foreign copyright holders." To the contrary, the proposals that ultimately produced Section 602(a)(1) were driven by concerns about competition from copies imported by downstream wholesalers and jobbers,

against whom contractual remedies were inadequate because privity of contract was lacking, not about unauthorized importation by the "foreign copyright holders" themselves. See pp. 9-10, *supra*. As even petitioner's examples indicate, the "foreign copyright holder" was not the problem. See Br. 39 (noting ineffective means of redress against "a third party, *e.g.*, a British wholesaler") (quoting *Copyright Law Revision Pt. 4* 260); *id.* at 39-40 (noting that problem was because of "German jobber," not "German publisher") (quoting *Copyright Law Revision Pt. 4* 210).

C. Other Copyright Act Provisions Are Consistent With The Conclusion That Section 109(a) Does Not Cover Foreign-Made Copies

Although petitioner acknowledges that "a legislator perhaps *could* use the phrase 'where this title is applicable' and 'under this title' synonymously," Br. 44, it argues that other provisions of the Copyright Act preclude that reading here, *id.* at 15-20. That is incorrect.

1. The phrase "lawfully made under this title" can quite naturally be read to refer to copies "lawfully made" pursuant or subject to Title 17. See *Ardestani* v. *I.N.S.*, 502 U.S. 129, 135 (1991) (holding that "the most natural reading" of the word "under" in the Equal Access to Justice Act was "subject to" or "governed by"); *Webster's New Ninth Collegiate Dictionary* 1285 (1985) (defining "under" as "subject to the authority * * * of"). To be sure, because "[t]he word 'under' is a chameleon" with "many dictionary definitions," it "must draw its meaning from its context.'" *Kucana* v. *Holder*, 130 S. Ct. 827, 835 (2010) (internal quotation marks and citation omitted). For the reasons set forth above, Section 109(a)'s role within the overall statutory scheme, and (in

particular) its relationship to Section 602(a)(1), dictate that "lawfully made under this title" should be read as "lawfully made" pursuant to Title 17.

Section 602(b), which was enacted contemporaneously with Section 109(a), grants Customs the authority to stop the importation of copies that "would have constituted an infringement of copyright if this title had been applicable." 17 U.S.C. 602(b). The counterfactual structure of that provision demonstrates Congress's recognition that Title 17 does not apply beyond the territorial jurisdiction of the United States. And in 2008, Congress amended Section 602(a) to provide a distinct private right of action against piratical imports and exports, see notes 1 and 2, *supra*, employing the same counterfactual formulation. 17 U.S.C. 602(a)(2). Congress could have used similar language in Section 109(a) if it had intended the application of that provision to turn on a comparable inquiry into whether particular extraterritorial conduct would have been legal if it had occurred in the United States.

Petitioner argues at length (Br. 29-33) that applying Section 109(a) to copies imported into the United States would not involve an extraterritorial application of domestic law. That argument, while correct, is essentially irrelevant to the proper disposition of this case. If (as we explain above) the phrase "lawfully made under this title" in Section 109(a) means "lawfully made" pursuant or subject to Title 17, then Section 109(a)'s application to particular cases turns on whether the specific acts of copying involved were subject to the Copyright Act. Because the Copyright Act does not apply abroad (see pp. 13-14, *supra*) and the copies in this case were made in Switzerland, those copies were not "lawfully made under this title" within the meaning of Section 109(a).

The established understanding that the Copyright Act does not apply extraterritorially thus informs Section 109(a)'s proper application to the facts of this case, even though the conduct that is alleged to have been unlawful (the importation and subsequent resale of respondent's watches) occurred within the United States.

2. As petitioner observes (Br. 16-19), the words "lawfully made under this title" also appear in other Copyright Act provisions—the Audio Home Recording Act of 1992 (AHRA), 17 U.S.C. 1001 *et seq.*, and 17 U.S.C. 110. Petitioner contends that the phrase must be given the same meaning in every Title 17 provision where it appears, and that reading the AHRA and Section 110 to exclude foreign-made copies would produce absurd results. Those arguments lack merit.

a. Contrary to petitioner's contention, the phrase "lawfully made under this title" need not have the same meaning throughout Title 17. Although "there is a natural presumption that identical words used in different parts of the same act are intended to have the same meaning, * * * the presumption is not rigid and readily yields whenever there is such variation in the connection in which the words are used as reasonably to warrant the conclusion that they were employed in different parts of the act with different intent." *Atlantic Cleaners & Dyers, Inc.* v. *United States*, 286 U.S. 427, 433 (1932) (citation omitted); see *Barber* v. *Thomas*, 130 S. Ct. 2499, 2506 (2010) (interpreting "term of imprisonment" to mean different things in same statute). Section 109(a)'s place within the overall statutory scheme—and, in particular, its relationship to Section 602(a)(1)—strongly indicates that Section 109(a) does not cover foreign-made copies. If (as petitioner contends) analogous contextual clues made it apparent that

the AHRA and Section 110 *do* cover such copies, the phrase "lawfully made under this title" could appropriately be given different meanings in different Title 17 provisions.

b. In any event, there would be nothing irrational about interpreting the cited provisions to apply only to copies made where Title 17 applies. Under the AHRA, persons who distribute blank digital audio recording media within the United States must pay royalties into a fund managed by the Register of Copyrights. See 17 U.S.C. 1003, 1004(b). The proceeds are then paid to recording artists and composers whose works were embodied in musical recordings that were "lawfully made under this title" and distributed within the United States during the relevant period. 17 U.S.C. 1006(a)(1)(A). The rationale for the royalty program is that, because blank recording media are often used by consumers to record copyrighted music, persons whose works may be copied should receive compensation from those who distribute the recording media. See S. Rep. No. 294, 102d Cong., 2d Sess. 30 (1992).

Petitioner argues (Br. 17-18) that, if the phrase "lawfully made under this title" in Section 1006(a)(1)(A) is limited to recordings made within the United States, the provision will conflict with Section 1004(b), which encompasses recording media manufactured abroad and imported into the United States. That is a non sequitur. Section 1004(b) deals with blank audio recording *media* (*e.g.*, a blank cassette), see 17 U.S.C. 1001(4) (definition of "digital audio recording medium"), and defines the obligations of persons who must pay royalties *into* the fund; Section 1006 deals with finished musical *recordings* and identifies the persons who may *receive* payments. There would be nothing absurd or illogical in

requiring royalties to be paid into the fund on all blank recording media distributed within the United States, including media manufactured abroad, while paying benefits only to artists and composers whose works were embodied in recordings made in the United States.

Section 110 exempts certain educational activities from copyright infringement liability but provides that, for motion pictures and other audiovisual works and phonorecords, no exemption shall apply to a copy "not lawfully made under this title" if the instructor "knew or had reason to believe [it] was not lawfully made." 17 U.S.C. 110(1). Petitioner argues (Br. 17) that, if the phrase "made under this title" is limited to copies created in the United States, "teachers would be liable for copyright infringement simply for exposing their students to genuine musical performances or instructional videos that happened to be made abroad." But it would not be irrational to limit the safe harbor to copies made in the United States, and Section 110(1)'s scienter requirement reduces the danger of over-expansive liability. In addition, Section 110(1)'s reference to copies "not lawfully made under this title" could plausibly be read as limited to copies "unlawfully made subject to Title 17"—*i.e.*, copies made in the United States in violation of Title 17. So construed, Section 110(1) would not impose any potential liability for the educational use of copies produced abroad.

3. Petitioner also contends (Br. 18-20) that, if Congress had intended the application of Section 109(a) to depend in part on the location of manufacture, it would have expressed that intent directly, as it did in other provisions of Title 17. But it is equally true that, if Congress had intended Section 109(a)'s coverage to turn on whether a copy's creation would have complied with Ti-

tle 17 *if* Title 17 applied, it could have used the same counterfactual formulation that it used in Section 602(a)(2) and (b). See p. 22, *supra*. A recognition that Congress could more clearly have indicated which of the two competing constructions it intended is the beginning rather than the end of the interpretive process.

D. Petitioner's Policy Arguments Do Not Support Its Reading Of Section 109(a)

Petitioner and its amici contend that the court of appeals' decision will mark the end of secondary markets, lead to higher unemployment, and encourage companies to move manufacturing overseas. Those concerns provide no sound reason to adopt the construction of Section 109(a) advocated by petitioner.[4]

1. Some of the potential adverse policy effects that petitioner identifies are a direct and inherent consequence of Congress's decision in 1976 to expand Section 602 's ban on unauthorized importation beyond piratical copies. Petitioner and its amici argue that the court of appeals' interpretation will impede secondary markets, and that such markets benefit consumers by increasing competition and lowering consumer costs. See, *e.g.*, Pet.

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[4] As petitioner observes (Br. 8-9), the watches at issue in this case are quite different from the typical copyrighted work. In order to exploit the importation protections of the copyright laws, respondent has affixed a tiny copyrighted logo—less than one half-centimeter in diameter, *id.* at 8—to its luxury wristwatches. Petitioner does not contend, however, that the atypical character of the copyrighted works at issue here is relevant to the proper application of Section 109(a). Cf. *Quality King*, 523 U.S. at 140 (explaining that, "[a]lthough the labels" at issue in that case "ha[d] only a limited creative component, [the Court's] interpretation of the relevant statutory provisions would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books").

Br. 46-47, 51. Section 602(a)(1), however, reflects a clear congressional determination that the benefits of allowing international market segmentation in copyrighted goods outweigh those disadvantages. See pp. 8-11, *supra*.[5] And while the Court in *Quality King* construed Section 109(a) as a limitation on Section 602(a)(1), the Court also held that Section 109(a) does not encompass copies lawfully made under the law of another country. Any impediment to the formation of secondary markets in foreign-made copies is simply a corollary to that holding.

In addition, some of the policy concerns raised by petitioner and its amici are equally implicated by petitioner's own construction of Section 109(a). For example, petitioner argues (Br. 12, 50-51) that "retailers and consumers will be hesitant to buy or sell" imported products "for fear of unintended liability for infringement," because they cannot "always know the provenance of lawfully made goods first sold abroad and imported for sale in the United States." As explained above, however, petitioner's own theory, which distinguishes between copies made abroad with the United States copyright owner's authorization and those made abroad by an "unrelated foreign copyright holder," would cause Section 109(a)'s coverage to turn on fine details of the relationships between the copyright owner and his delegees. See pp. 19-20, *supra*. There is no rea-

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[5] For example, book publishers have sometimes offered cheaper editions of their works in other (particularly undeveloped) countries, but their willingness to continue that practice might be reduced if the foreign editions could be imported into this country to compete with the higher-priced United States edition. Cf. *John Wiley & Sons, Inc.* v. *Kirtsaeng*, No. 08 CV-7834 (DCP), 2009 WL 3364037, at *8 & n.23 (S.D.N.Y. Oct. 19, 2009).

son to suppose that a downstream retailer or consumer will be more able to ascertain those details than to determine where the relevant copies were manufactured.

2. Taken together, the decision below and this Court's ruling in *Quality King* create the anomalous result that a copyright holder can produce copies for distribution abroad, while exercising its statutory right to bar unauthorized importation of the copies into the United States, *only* by producing the relevant copies in a foreign country. That differential treatment of domestic-and foreign-manufactured goods has no evident policy justification, and it could at least in theory provide an artificial incentive for outsourcing. That anomaly, however, is not a sufficient reason to construe Section 109(a) as effectively nullifying Congress's clear policy choice (see 17 U.S.C. 602(a)(1)) that market segmentation be permitted. Congress of course remains free to amend the Copyright Act in order to adjust the balance between protection of copyright holders' prerogatives and advancement of other policy objectives.

3. Petitioner argues that, if Section 109(a) does not apply to copies made outside the United States, a copyright owner who authorized the importation of such copies and sold them within this country could continue to exercise control over the manner in which the goods are resold. See Br. 12, 46-54; Pet. App. 15a-16a (court of appeals suggests that "[a] U.S. copyright owner * * * could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland"). That speculation, which has nothing to do with the facts of this case, provides no sound basis for construing Section 109(a) to encompass foreign-made copies.

a. As petitioner recognizes (Br. 52), prior Ninth Circuit decisions have held that, even when copies are manufactured abroad, a copyright owner who authorizes their sale within the United States has no authority to control their further distribution. Although petitioner contends (*ibid.*) that this approach "has no textual basis," the relevant Copyright Act provisions taken together may reasonably be read to support that result, even if Section 109(a) is limited to copies made in the United States.

The Court in *Bobbs-Merrill* held that a copyright owner's exclusive right to "vend" the copyrighted work did not include a right to dictate the terms on which the goods would be resold. 210 U.S. at 349-351; see *Quality King*, 523 U.S. at 140-141 & n.5 (discussing *Bobbs-Merrill*). The corresponding right under the current Copyright Act is the exclusive right to "distribute" copies of the copyrighted work. 17 U.S.C. 106(3); see *Quality King*, 523 U.S. at 142. And under Section 602(a)(1), unauthorized importation is "an infringement of the exclusive right to distribute copies or phonorecords under section 106."

If Congress had never enacted Section 109(a) or its statutory predecessors, a straightforward application of *Bobbs Merrill* would indicate that a copyright owner who authorized the importation of foreign-made copies into the United States, and/or authorized a first sale of the goods within this country, had "exhausted his exclusive statutory right to control [the goods'] distribution." *Quality King*, 523 U.S. at 152. To hold that a copyright owner who authorizes the importation or first domestic sale of foreign-made copyrighted goods continues to possess exclusive distribution rights under Section 106(3), it would not be sufficient for a court simply to

conclude that Section 109(a) is limited to copies made in the United States. Rather, the court would be required to conclude in addition that, by codifying the first sale doctrine in a way that does not encompass foreign-made copies, Congress implicitly *expanded* the copyright owner's exclusive right to "vend" or "distribute" those copies. There is no evident reason to draw that inference. See *ibid.* ("There is no reason to assume that Congress intended either [Section] 109(a) or the earlier codifications of the doctrine to limit its broad scope.").

Thus, in the hypothetical circumstances that petitioner describes, application of the first sale doctrine as a limiting construction of the term "distribute" in Section 106(3) would be consistent with the current text of the Copyright Act and faithful to the doctrine's historical underpinnings. In the actual circumstances of this case, by contrast, acceptance of petitioner's position would represent a significant expansion of the first sale doctrine. With respect to the copies at issue here, respondent has never exercised *any* of the exclusive rights conferred by the Copyright Act, since the Act does not apply outside the United States and both the manufacture and the authorized first sale of the watches occurred abroad. Treating the sale in Switzerland as exhausting respondent's Copyright Act rights would also disserve Congress's intent to address unauthorized importation by downstream wholesalers and jobbers (see pp. 9-10, *supra*) — entities that would ordinarily acquire ownership of copyrighted works only after an authorized first sale had taken place.[6]

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[6] To be sure, the Court in *Quality King* construed Section 109(a) to encompass at least some copyrighted goods whose first sale occurred abroad. See 523 U.S. at 145 n.14. In *Quality King*, however, Section 109(a) unambiguously covered the relevant copies, which were made in

b. Petitioner and its amici cite no case in which a copyright owner has sought to extract royalties for foreign-made copies of a copyrighted work at multiple stages of an otherwise lawful distribution chain within the United States. The apparent absence of such real-world examples is particularly significant because Section 109(a) has for the past 25 years been understood not to encompass foreign-made copies. See Resp. Br. 45-46. Even if the Copyright Act were read to confer on the copyright owner a continuing right to control distribution of copies made abroad, there are a number of reasons, both legal and practical, why the downstream effects petitioner hypothesizes are unlikely to materialize.

If, for example, a foreign-made copy is imported into the United States with the copyright owner's permission, the copyright owner presumably will be deemed to have granted downstream retailers an implied, nonexclusive license to distribute. Cf. *Disenos Artisticos E Industriales, S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 382 (9th Cir. 1996) (explaining that "sales without restriction on export into the United States" give rise to implied license to import and preclude liability under Section 602(a)(1), which requires importation "without the authority of the owner"); 17 U.S.C. 106(3) ("owner of

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the United States; L'anza had exercised its exclusive right to "reproduce the copyrighted work," 17 U.S.C. 106(1), since the labels at issue were manufactured in this country; and the Court's decision allowed Section 602(a)(1) to have practical effect in a substantial range of cases (*i.e.*, those involving copies lawfully made under the laws of other countries). Here, by contrast, respondent has exercised none of its exclusive Copyright Act rights with respect to the relevant copies, Section 109(a) read in isolation is ambiguous as applied to copies made in Switzerland by the United States copyright owner; and acceptance of petitioner's theory would essentially negate Congress's decision to expand Section 602 beyond piratical copies.

copyright under this title has the exclusive rights to do and to *authorize* * * * distribut[ion of] copies or phonorecords of the copyrighted work to the public") (emphasis added). And downstream domestic distributors are often the copyright owner's own customers, making it unlikely that the copyright owner will sue for infringement. Additionally, default rules of commercial law may provide protection in the form of indemnification against defective title and third-party copyright infringement claims in the sale of goods. See, *e.g.*, U.C.C. § 2-312 (2005) (implied warranty of title and implied warranty against infringement). Thus, even apart from the first sale doctrine, downstream retailers have a variety of means to avoid infringement actions based on foreign-made copies that copyright owners have allowed to be introduced into the United States.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

NEAL KUMAR KATYAL
Acting Solicitor General

TONY WEST
Assistant Attorney General

MALCOLM L. STEWART
Deputy Solicitor General

MELISSA ARBUS SHERRY
Assistant to the Solicitor General

SCOTT R. MCINTOSH
MARK R. FREEMAN
Attorneys

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AMICUS CURIAE BRIEF

Supreme Court, U.S.
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No. 08-1423

IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ of Certiorari to the
United States Court of Appeals
for the Ninth Circuit

BRIEF OF AMERICAN BAR ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

Of Counsel:
Thomas C. Goldstein
Karol A. Kepchar

Stephen N. Zack
Counsel of Record
President
American Bar Association
321 North Clark Street
Chicago, IL 60654-7598
(312) 988-5000
szack@bsflip.com

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D.C. 20002

QUESTION PRESENTED

Whether a copy made and distributed abroad is "lawfully made under this title," 17 U.S.C. § 109(a), and thus is exempt from the copyright owner's exclusive right to control the importation of copies of its work into the United States, *id.* § 602(a).

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Fed. R. Civ. P. 37.6 1

INTEREST OF THE AMICUS CURIAE[1]

Amicus curiae American Bar Association ("ABA") respectfully submits this brief in support of respondent, Omega, S.A. Pursuant to policy adopted by the ABA, which sets forth the view of a broad cross-section of its members, the ABA urges this Court to affirm the judgment of the Ninth Circuit.

The ABA is the leading national voluntary bar organization of the legal profession, having nearly 400,000 members. Its members come from each of the fifty states, the District of Columbia, and the U.S. territories. Membership includes attorneys in private practice, government service, corporate law departments, and public interest organizations, as well as legislators, law professors, law students, and non-lawyer associates in related fields.[2]

Particularly relevant to this case, the ABA's Section of Intellectual Property Law ("IPL Section") is the world's largest organization of intellectual

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[1] Pursuant to Rule 37.6, *amicus curiae* certifies that no counsel for a party authored this brief in whole or in part and that no person or entity, other than *amicus*, its members, or its counsel, has made a monetary contribution to the preparation or submission of this brief. The parties have filed letters with the Clerk of the Court providing blanket consent to the filing of *amicus* briefs.

[2] Neither this brief nor the decision to file it should be interpreted to reflect the views of any judicial member of the ABA. No inference should be drawn that any member of the Judicial Division Council has participated in the adoption or endorsement of the positions in this brief. This brief was not circulated to any member of the Judicial Division Council prior to filing.

property professionals, with approximately 25,000 members including partners, associates, and law students. Attorneys in the IPL Section represent diverse interests, including copyright owners, users of works of authorship, large and small corporations, libraries, universities, and individual authors.

The ABA policy addressed to this case originated in the IPL Section's Copyright Task Force, which is composed of the chairs of all the IPL Section's copyright committees as well as attorneys with copyright expertise. The Task Force was created to monitor judicial developments and to develop policy on matters of special importance. Before its presentation to the ABA's House of Delegates, the report and resolution that gave rise to the applicable ABA policy was unanimously approved both initially by the Task Force and subsequently by the IPL Section Council.[3]

In addition to the IPL Section, other Sections of the ABA were directly involved in the development of ABA policy on the question presented by this case. The Sections of Science and Technology Law, International Law, and Litigation co-sponsored the policy adopted by the ABA House of Delegates. No

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[3] The ABA's House of Delegates ("HOD") is the ABA's policy-making body. The HOD is composed of more than 500 delegates representing states and territories, state and local bar associations, affiliated organizations, sections and divisions, ABA members and the Attorney General of the United States, among others. Only recommendations adopted by the HOD become ABA policy. *See* ABA General Information, *available at* http://www.abanet.org/ leadership/delegates.html.

member of the House of Delegates spoke in opposition to the policy.

ABA Resolution 109 was adopted as ABA policy by its House of Delegates at the 2010 Midyear Meeting after extensive discussion and analysis, It provides:

> The American Bar Association urges courts to interpret the statutory first sale doctrine in Section 109(a) of the U.S. Copyright Act and the copyright owner's importation right in Section 602(a) to exclude application of the first sale doctrine to the importation of goods embodying a copyrighted work that were not manufactured in the United States.[4]

This brief sets forth the analysis on which the ABA's policy is based.

SUMMARY OF ARGUMENT

On a proper construction of the Copyright Act, a copyright owner may prevent the importation into the United States of copies of copyrighted works made abroad, when no authorized first sale of those copies in the U.S. has occurred. The statute at issue in this case, 17 U.S.C. § 109(a) – which codifies the principle known as the "first sale" or "exhaustion" doctrine – applies to "the owner of a particular copy or phonorecord *lawfully made under this title*" (emphasis added). Qualifying copies exhaust the

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[4] *ABA Report with Recommendation #109* (Policy adopted Feb. 2010), available at http://www.abanow.org/house-of-delegates-resolutions-2010 midyear meeting.

copyright owner's exclusive right to control the importation of those copies into the United States.

The Ninth Circuit in this case correctly interpreted Section 109(a) in concluding that copies made abroad – and thus "lawfully made 'under the law of some other country'" – are not copies lawfully made "under [Title 17]." *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988 (9th Cir. 2008). Put simply, copies made abroad are not "made under" U.S. law at all. The ruling below is consistent with this Court's guidance in *Quality King Distributors, Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), that, as between an American and a British publisher of a work copyrighted in the United States, "presumably only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." *Id.* at 148.

Interpreting the first sale doctrine of Section 109(a) instead to permit the importation of copies of works produced and sold outside of the United States over the objection of the copyright owner would render the right to control importation in Section 602(a) largely superfluous. It would moreover invite the adoption of costly and complicated contractual arrangements that have no purpose or effect other than to preserve the copyright owner's exclusive right to control distribution into the United States.

The Ninth Circuit's judgment accordingly should be affirmed.[5]

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[5] The ABA takes no position on the view of the Ninth Circuit that an authorized first sale in the United States of a copy made abroad would exhaust the copyright owner's right to control

ARGUMENT

The Court Should Construe "Lawfully Made Under This Title" to Refer to Only Copies Made in the United States.

I. The Ninth Circuit's Construction of "Lawfully Made Under This Title" Best Reflects the Statutory Text and Structure.

Section 602(a)(1) of the Copyright Act announces a general prohibition against the "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States." 17 U.S.C. § 602(a)(1). But Section 109(a) – which embodies the so-called "first-sale doctrine" – provides – as an exception to the general prohibition – that "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." *Id.* § 109(a). The question in this case is whether a copy made and sold overseas is "made under this title" and thus falls within the exception of Section 109(a).[5]

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importation into this country of such copy. *Omega*, 541 F.3d at 989 ("parties can raise § 109(a) as a defense in cases involving foreign made copies so long as a lawful domestic sale has occurred").

[5] The ABA policy applicable to this case is limited to the Copyright Act. Other fields, such as trademark and patent law, involve distinct statutory schemes and implicate separate policy concerns.

The Copyright Act does not separately define the phrase "lawfully made under this title." In interpreting a statute, this Court begins with the text. *Jimenez v. Quarterman*, 555 U.S. ___, 129 S. Ct. 681, (2009). Section 109(a) codifies the first sale doctrine, which limits copyright owners' ability to control U.S. distribution of particular copies "lawfully made under this title." 17 U.S.C. § 109(a). "[T]his title" is Title 17 of the U.S. Code, in which the Copyright Act is codified. The statute is thus most naturally read to refer only to copies that are "made under" U.S. copyright law.

That conclusion is consistent with the role of Section 109(a) in the overall statutory scheme. *Davis v. Mich. Dept. of Treasury*, 489 U.S. 803, 809 (1989) ("It is a fundamental canon of statutory construction that the words of a statute must be read in their context and with a view to their place in the overall statutory scheme."). Section 602(a) addresses a copyright owner's right to control importation of copies "acquired outside the United States." 17 U.S.C. § 602(a). If copies made and sold abroad were exempt from the copyright owner's power to control importation, then Section 602(a) would have little effect. The statute seemingly would apply only to copies possessed by non-owners, such as bailees and licensees. It is unlikely that Congress intended the statute to have such a narrow application. *Cf. Freytag v. Comm. of Internal Revenue*, 501 U.S. 868, 877 (1991) ("Our cases consistently have expressed 'a deep reluctance to interpret a statutory provision so as to render superfluous other provisions in the same enactment'").

Relatedly, Section 602(a) in certain circumstances exempts from the copyright owner's exclusive right to control importation those copies that (1) will be used by the government, (2) are for the personal use of the importing party, or (3) are imported for "scholarly, educational, or religious purposes." *Id.* § 602(a)(1)-(3). But when applicable, these explicit exceptions to the copyright owner's exclusive right to control importation do not allow the importer to then further distribute the lawfully imported copies. Instead, in cases governed by these exceptions, the copyright owner continues to control the further downstream distribution of its works in the United States. *See* 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (Rev. Ed. 2009). Petitioner's reading of Section 109(a), by contrast, would give the importer of a copy made and sold abroad the much greater power to distribute that copy in the United States over the copyright owner's objection. The statutory design – with its narrower express exemptions – suggests that Congress did not intend in Section 109(a) to enact such a sweeping exception to Section 602(a).

That conclusion is reinforced by the long-standing presumption, which formed the backdrop for the adoption of the Copyright Act, that the country's proscriptive and prescriptive competence ends at its own borders. *See American Banana Co. v. United Fruit Co.*, 213 U.S. 347, 356 (1909) ("[T]he character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done."), *overruled on other grounds, Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 704-705 (1962). Containing no contrary statutory indication, the U.S. Copyright Act has been

interpreted consistently as subject to this presumption of territoriality. *See generally* 1 Paul Goldstein, *Goldstein on Copyright* § 1.12, at 1:26 (3d Ed. 2005) ("Copyright protection is territorial. The rights granted by the United States Copyright Act extend no farther than the nation's borders."). That is no oversight. In enacting the Copyright Act, Congress recognized territorial limits on copyright – for example, the statute identifies the types of works Congress chose to protect under copyright within U.S. borders and provides an importation right in Section 602(a) distinct from the public distribution right of Section 106(3). There is no evidence in the statute that Congress determined that the copyright owner's activities abroad should enhance or extinguish rights under the U.S. Copyright Act that are solely exercisable in the United States. Thus, the Ninth Circuit's refusal to accept the copyright owner's manufacture and sale of copies strictly outside the U.S. as the legal trigger that would exhaust its rights under Section 602(a) in this country is sound.

II. The Ninth Circuit's Decision Is Consistent with This Court's Guidance in *Quality King*.

In *Quality King*, this Court addressed the status under Section 602(a) of copies lawfully made in the United States that returned in the stream of commerce to this country – a so-called "round trip." The Court had no reason to construe the phrase "lawfully made under this title" in Section 109(a), because copies produced in the United States are obviously "lawfully made under" Title 17.

Nonetheless, *Quality King* provides substantial guidance with respect to the question presented here.

To illustrate why its holding did not render Section 602(a) a nullity, the Court distinguished between copies "lawfully made" under "the United States Copyright Act" from those made "under the law of some other country." 523 U.S. at 147. The Court then offered as an "example" of this principle the hypothetical case of a copyright owner's division of its distribution rights between U.S. and British publishers. The Court specified that in such a circumstance copies made by the British publisher would not be "lawfully made under this title" for purposes of Section 109(a). *Id.* at 148. The Ninth Circuit in this case properly recognized that the only rationale for this Court's conclusion would be that the British copies in that circumstance were "made" in another country, not "made under" Title 17. *Omega*, 541 F.3d at 988.

Petitioner responds that in this case respondent did not in fact formally divide its distribution rights between the United States and other countries such as Britain. But that formality is not dispositive, and it is not the point made by this Court in *Quality King*. Section 109(a) looks to where the copy was "made," not to the copyright owner's corporate or contractual relationships with non-U.S. rights holders, such as whether there exists an explicit geographical allocation of distribution rights. Nor would the regime that petitioner proposes make practical sense. It would operate as an inducement to prudent copyright owners to engage in otherwise unnecessary organizational and licensing schemes in foreign markets solely in order to preserve their U.S. distribution rights. There is no basis on which to conclude that Congress intended to do so.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

Of Counsel:
Thomas C. Goldstein
Karol A. Kepchar

Stephen N. Zack
Counsel of Record
President
American Bar Association
321 North Clark Street
Chicago, IL 60654-7598
(312) 988-5000

AMICUS CURIAE BRIEF

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IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF *AMICUS CURIAE* AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
ALAN J. KASPER, PRESIDENT
241 18th Street, South
Suite 700
Arlington, VA 22202
(703) 415-0780

PATRICK J. COYNE*
FINNEGAN, HENDERSON, FARABOW, GARRETT, & DUNNER LLP
901 New York Avenue, N.W.
Washington, DC 20001
(202) 408-4000
patrick.coyne@finnegan.com

*Counsel of Record

July 9, 2010

Counsel for *Amicus Curiae*

35

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STATEMENT OF INTEREST[1]

The American Intellectual Property Law Association ("AIPLA") is a national bar association of more than 15,000 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. AIPLA members represent both owners and users of intellectual property.

AIPLA has no interest in any party to this litigation nor does AIPLA have a stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the administration of the copyright and trade laws. This brief is filed with the consent of both parties to this dispute, as expressed in letters consenting to amicus filings entered on this Court's docket May 5, 2010.

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[1] In accordance with Supreme Court Rule 37.6, this brief was not authored, in whole or in part, by counsel for a party, and no such counsel or party made any monetary contribution intended to fund the preparation or submission of this brief.

SUMMARY OF ARGUMENT

This brief urges the Court to clarify the respective rights of U.S. copyright owners to control the channels of distribution for their goods, and of the owners of copies of those goods to sell or otherwise dispose of their copies. This issue was addressed in part by this Court in *Quality King Distributors, Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), with a decision favoring the owners of copies and to the detriment of copyright owners.

In the case now before the Court, the Ninth Circuit ruled in favor of the copyright owner, concluding that its rights were not limited by *Quality King* because, unlike that case, the copies here were made abroad. *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008). Both this case and the *Quality King* case concern the extent to which a copyright owner's right to block the unauthorized importation of its works under 17 U.S.C. § 602(a) of the Copyright Act is limited by the first sale defense under 17 U.S.C. § 109(a).

AIPLA takes no position on who should prevail on the present facts, but instead seeks to address the broader concerns of authors and creators. However, AIPLA urges this Court to reject the Ninth Circuit's reading of Section 109(a)'s "lawfully made under this title" language as limiting the statute to U.S.-made copies, and to construe the phrase as meaning "consistent with" the provisions of Title 17. Such a reading would not require a reversal of this Court's holding in *Quality King*,

although it may require a rethinking of the interplay between Section 602(a)'s restriction on the importation of copies and Section 106(3)'s right of distribution. Moreover, the legislative and judicial history of the first sale doctrine, as well as the context of identical language in other parts of the Copyright Act, makes clear that the first-sale doctrine applies to the sale and distribution of copies in the United States without regard to their place of manufacture.

Beyond this point, AIPLA's brief explores the first sale doctrine and presents the case for two alternative results here:

> (1) The first sale defense applies here for the same reasons that required its application to a charge of infringing imports in *Quality King*. As Justice Stevens wrote in that case, "once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Id.* at 152; or
>
> (2) The first sale defense does not limit infringement liability for unauthorized importations under 17 U.S.C. § 602(a) because the act of importation itself involves neither a sale nor disposition of a copy necessary to trigger the first sale doctrine. The difference in *Quality King* was that there was a distribution "to the public" inside the United States which exhausted the copyright owner's

rights before any importation occurred. No such sale or disposition of the copies took place prior to importation in this case.

BACKGROUND

In *Omega, S.A. v Costco Wholesale Corp.*, 541 F.3d 982, 986 (2008), a three-judge panel of the Ninth Circuit held that the first sale doctrine, 15 U.S.C. § 109(a), is not available as a defense to a copyright infringement claim that the sale in the United States of genuine copies originally made and sold overseas by the copyright owner infringe the copyright. In doing so, the Ninth Circuit panel sought to reconcile prior Ninth Circuit decisions denying the first sale defense with this Court's decision in *Quality King Distrib., Inc. v L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), in which this Court sustained the first sale defense.

In *Quality King* this Court held that the first sale doctrine (17 U.S.C. § 109(a)) applies to imported copies originally made in the United States ("round-trip" imports). This Court left open the issue of whether the importation of authorized copies made in a foreign country ("one-way" imports) also would be subject to the first sale defense. *Id.* at 154 (Ginsburg, J., concurring). The Ninth Circuit panel distinguished this Court's holding in *Quality King* on the basis of where the copies were made, holding that the phrase "lawfully made under this title" requires that the copy be physically made in this country. The Ninth Circuit panel concluded that

prior Ninth Circuit precedent is not "clearly irreconcilable" with *Quality King*, and followed the Ninth Circuit's prior decisions denying a first sale defense where the copies were made in a foreign country.

In the *BMG Music* decision, the Ninth Circuit held that the phrase "lawfully made under this title" requires that the copy be made in the United States, and denied the first sale defense to legitimate, imported copies. *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991). In subsequent cases, the Ninth Circuit recognized that this limiting construction of the first sale doctrine is too constrained, among other reasons because it creates perverse incentives that cannot be reconciled with the Copyright Act. Specifically, it "would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States." *Parfums Givenchy v. Drug Emporium, Inc.*, 38 F.3d 477, 482 (9th Cir. 1994). The Ninth Circuit modified its *BMG Music*-construction in subsequent cases, adding an additional exception from liability found nowhere in the statute or its legislative history: when the foreign-made copy was sold in the United States with the copyright owner's authorization. *Id.*; *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir. 1966). Consequently, the Ninth Circuit now construes the phrase "lawfully

made under this title" in Section 109(a) to mean either: (1) made in the United States; or (2) if not made in the United States, sold in the United States with the authorization of the copyright owner.

Other Circuits have declined to interpret the first sale doctrine in the manner of the Ninth Circuit, *e.g.*, *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). The Ninth Circuit's decision, whether or not "clearly irreconcilable" with *Quality King*, fails to acknowledge and accommodate this Court's holdings regarding the scope of the first sale doctrine, the plain language of the statute, and its legislative history.

ARGUMENT

I. *Quality King* Did Not Resolve Whether the First Sale Doctrine Applies To the Importation and Sale of Legitimate Foreign-Made Copies

The Ninth Circuit held that the first sale defense of Section 109(a) applies "only to copies legally made . . . in the United States." *Omega*, 541 F.3d at 990. In spite of this Court's intervening decision in *Quality King*, the Ninth Circuit held that its own prior authority on this issue remains binding precedent. *Omega*, 541 F.3d at 990.

Nonetheless, the Ninth Circuit recognizes that this Court in *Quality King* set forth a syllogism that

affects several critical issues in this case. First, the exclusive right in Section 602(a) to prevent unauthorized importation of a copy is not independent of, and is merely a subcategory of, the exclusive distribution rights provided by Section 106(3). Second, similar to the other exclusive rights granted by Section 106, the right to prevent unauthorized importation in Section 602(a) and 106(3) is limited by the first sale doctrine, 17 U.S.C. § 109(a), as well as by the remaining defenses in sections 107 through 122. Third, if the "owner of a particular copy . . . lawfully made under this Title" imports and sells that copy, even without the authority of the copyright owner, there can be no infringement. *Omega*, 541 F.3d at 984-85; *Quality King*, 523 U.S. at 142. What remains unresolved is whether being "lawfully made under this title" requires that the copy is physically made in the United States or simply that it is a lawful copy made consistent with the provisions of the Copyright Act, regardless of where it is made. This brief will: discuss the impact of certain statements in this Court's *Quality King* opinion on this issue; summarize the legislative history of this specific phrase—"lawfully made under this title"; describe and critique the arguments in favor of reversal and affirmance, respectively; and finally, provide AIPLA's observations regarding the possible consequences of this Court either reversing, or affirming on other grounds, the Ninth Circuit's decision.

Although this Court in *Quality King* made a number of statements regarding the scope of the first sale doctrine with respect to foreign-made copies, that case did not involve a foreign-made copy. AIPLA respectfully submits that these statements, made in *dicta*, merit reexamination by the Court.

Some of the Court's *dicta* favors reversal. Specifically, the Court stated: "the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act." *Quality King*, 523 U.S. at 145 n.14. Although the goods in *Quality King* were in fact sold overseas, they were also made and sold domestically, *id.* at 138-39, and the *Quality King* judgment can rest on these domestic sales. Thus, this statement is unnecessary to the Court's decision, presenting the danger identified by Justice Ginsburg of the Court prejudging in dicta the meaning of the phrase "lawfully made under this title" with respect to an authorized, foreign-made copy. *Id.* at 154.

Other of the Court's *dicta* in *Quality King* favor affirmance. In *Quality King*, this Court stated that "lawfully made under this title" does not include a copy that is lawfully made in a foreign country with the authorization of the copyright owner. *Id.* at 146-47. Yet, the examples from the statutory history referenced by this Court in *Quality King* supporting this conclusion concerned predominantly non-dramatic literary works which, unlike the visual

work at issue in this case, were expressly subject to statutory protection under the "manufacturing clause" of the 1976 Copyright Act. This factor was not taken into account in the Court's analysis, particularly in view of the expiration of the manufacturing clause in 1986.

This Court notes in *Quality King* that the "category of copies produced lawfully under a foreign copyright was expressly identified in the deliberations that led to the enactment of the 1976 Act." *Id.* at 147. The Court quotes the Register's 1961 Report to Congress as banning such imports. Yet, such imports were banned by the now-expired manufacturing clause, which had been a part of the copyright law since 1891 and was included in 17 U.S.C. § 601. This protection never applied to the type of work at issue in the present case. Similarly, the Court's statement that, "presumably only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of Section 109(a)," *Quality King*, 523 U.S. at 148, is just that, a presumption, in dicta, about a different type of work.

The *Quality King* decision relied upon a similar analysis in rejecting L'Anza's argument that, if the first sale doctrine applied, the exceptions in Section 602(a)(3) would be superfluous. The Court resolved this issue on three alternative grounds, *id.* at 146-47, and its statements regarding "the category of copies produced lawfully under a foreign copyright" is unnecessary to its holding in *Quality King*. *Id.* at 146-47. The Court cited the exceptions

to Section 602 as further support for its holding in *Quality King*. *Id.* Yet, the exceptions to Section 602(a) serve another purpose, namely, to clarify that the excepted activities are permitted even if they fail to satisfy the more stringent criteria for fair use. *See* 17 U.S.C. § 107. This statement too was unnecessary to the Court's holding in *Quality King*.

This Court in *Quality King* set out a paradigm of three alternatives relative to the phrase "lawfully made under this title" in Section 109(a). Such copies may be either: (1) piratical; (2) lawfully-made (non-piratical) in the United States; or (3) lawfully-made (non-piratical) under another country's laws. *Quality King*, 523 U.S. at 136. Respondents argue that the second and third categories are not mutually exclusive. Instead, AIPLA respectfully submits that this paradigm does not bear close scrutiny in light of the legislative history of Section 109(a).

II. Legislative History of "Lawfully Made Under This Title" Does Not Support Confining The § 109(a) Defense To U.S. Made Copies

Before 1908, this Court had not yet recognized a first sale doctrine as applied to copyrighted works. The Copyright Act at the time of the *Bobbs-Merrill* decision gave the owner the right to "vend." U.S. Comp. Stat. 1901, pp. 3406, 3414, 3416. After noting patent law decisions that allowed restraints on alienation after the product had been sold, the Court held that the issue was one of first impression under

the copyright laws. *Bobbs-Merrill v. Straus*, 210 U.S. 339, 346 (1908). The Court noted:

> . . . [D]oes the sole right to vend (named in §4952) secure to the owner of the copyright the right, after the sale of the book to a purchaser, to restrict future sales of the book at retail to the right to sell it at a certain price per copy because of a notice in the book that a sale at a different price will be treated as an infringement, which notice has been brought home to one undertaking to sell for less than the named sum? We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction.
>
> * * *
>
> In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future

> purchasers, with whom there is no privity of contract. . . . The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend.

Id. at 350-51.

The following year, Congress codified the *Bobbs-Merrill* holding in the Copyright Act of 1909: "nothing in this act shall be deemed to forbid, prevent, or restrict the transfer of ***any copy*** of a copyrighted work the possession of which has been lawfully obtained." Copyright Act of 1909, Ch. 320, § 41; 17 U.S.C. § 27 (emphasis added). The phrase "any copy" remained unchanged in the 1947 Copyright Act, and was finally changed in the 1976 Act to: "made under this title." Under the "any copy" formulation, the first-sale doctrine would have precluded Omega's infringement claims in this case. *See Quality King*, 523 U.S. at 142, n.9. The precise question before this Court, therefore, is whether Congress, in changing the language of the first-sale doctrine from "any copy" to a copy "lawfully made under this title," intended to exempt foreign-made copies from the operation of the first sale doctrine.

Had Congress desired this change to limit the scope of the first sale doctrine to domestically-made copies, the legislative history would be expected to evidence this change. If, instead, the legislative history is silent on this point, it is important to

consider precisely what Congress did intend by this change. Was Congress endorsing the *Bobbs-Merrill* holding or attempting to limit it in some way?

In January of 1963, Congress considered a proposed change of the first sale doctrine from "any copy of a copyrighted work the possession of which has been lawfully obtained" to "[e]xcept in the case of articles made in violation of the exclusive right provided in subsection (a), this right [to distribute copies and sound recordings] shall end with respect to a particular copy or sound recording as soon as its first sale or other transfer of ownership has taken place. . . ." Preliminary Draft for Revised Copyright Law (Part 3) (July 20, 1964). The reason given for this change was to avoid invoking the first sale doctrine with respect to pirated copies of the work: "articles made in violation of the exclusive right provided in subsection (a)." *Id.*; Section 5(b). Yet, no discussion accompanied the proposal regarding whether the piratical copies were domestically-made or foreign-made. *Id.*

This proposal was further revised in 1964, with the addition of Section 7 of the Copyright Act. There was no discussion whether the goods were manufactured in the United States or abroad, as this Court considered and attributed to Congress in the *Quality King* opinion. 523 U.S. at 146-48. There was, however, some discussion that the first sale provision should not protect piratical copies and should not be construed to pre-empt state laws, including those prohibiting restraints on alienation.

In a letter dated November 3, 1964, Professor Nimmer noted that:

> Sections 7(a) and (b) [the first sale doctrine] should be stated in the negative rather than in the affirmative. That is it should be said: "The sale or other disposition of the possession of a particular copy or phonorecord lawfully made under this title by the owner of such copy or phonorecord shall not constitute an infringement of the rights of the copyright owner . . . even if such sale or other disposition is made without the authority of the copyright owner. . . . The reason for the negative rather than the affirmative form is to avoid an argument that Section 7(a) and (b) constitute a federal preemption so as to invalidate any state law contractual restrictions on the right of the owner of the particular copy to dispose, exhibit, etc. same.

Copyright Law Revision Bill (Part 5), 316 (Sept. 2, 1965). Ultimately, Professor Nimmer's suggestion to phrase the first sale doctrine in the negative rather than the positive was not accepted by Congress. However, his letter expresses a concern for federal preemption of state law rights

held by the owner of a particular copy. While comments during a panel discussion do not necessarily reflect Congressional intent, *Puerto Rico Dept. of Consumer Affairs v. Isla Petroleum Corp.*, 485 U.S. 495, 501 (1988), *c.f. Quality King*, 523 U.S. at 147-48, the letter demonstrates that the evolution of what became Section 109 included an attempt to preserve those rights. The "lawfully made under this title" language became a fixture in the various legislative proposals culminating in the 1976 Act. But what exactly was Congress trying to accomplish by this change?

The 1964 proposal specifically addressed the "lawfully made under this title" language as follows:

> **D. Effect of Transfer of Particular Copy or Phonorecord**
>
> * * *
>
> To come within section 108(a) a copy or phonorecord must have been 'lawfully made under this title,' but not necessarily under the authority of the copyright owner.' Thus, for example, the disposition of a phonorecord manufactured in compliance with section 113 of the bill would be outside the copyright owner's control. To prevent possible abuse of the copyright owner's rights where copies or phonorecords are

> lawfully made without his authorization, safeguards have been written into section 110 (restricting the use of ephemeral recordings), and into section 113 (allowing a compulsory license for the making of phonorecords only where the maker's 'primary purpose is to distribute them to the public for private use').

Preliminary Draft U.S. Copyright Law & Discussions & Comments on the Draft (Part 3), 28 (July 20, 1964).

On May 13, 1965, the Register of Copyrights submitted another report to Congress on the first sale doctrine, Section 108, stating:

> **Effect of transfer of particular copy or phonorecord.**
>
> Section 108 reaffirms the principle that, when the copyright owner has sold or otherwise transferred ownership of a particular copy or phonorecord of his work, the person who has acquired ownership of that copy or phonorecord is entitled to dispose of it by sale, rental, or any other means of disposition. Under section 108(b) the owner of a copy

> would also be free 'to exhibit that copy publicly to viewers present at the place where the copy is located,' although he would not be entitled to show the copy over television.

Supplementary Report of Register of Copyrights on the General revision of the U.S. Copyright Law: 1965 Revision Bill (Part 6), XVIII (May 13, 1965).

By 1966, the language of the first sale doctrine assumed substantially the form in which it would be enacted into law, 10 years later. On September 27, 1966, Representative Robert W. Kastenmeier, the principal sponsor of the series of bills that became the 1976 Act, summarized the then-current version of the bill on the House floor:

> **Section 109: Effect of transfer of particular copy or phonorecord**
>
> Section 109 restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person who becomes the owner is entitled to dispose of the copy or phonorecord by sale, rental, or any other means. This principle does not apply where a person has acquired possession under a rental or loan agreement,

> without obtaining ownership of the object. Under Section 109(b), the owner of a copy would be able to display it publicly 'to viewers present at the place where the copy is located,' as long as he does not project more than one image at a time or transmit images be television or similar devices.

Summary of Principal Provisions of H.R. 4347, As Amended; *inserted into record by* Mr. Kastenmeier, 112 Cong. Rec. 24064, 24064-68 (Sept. 27, 1966).

Through continued consideration over the next 10 years, the language of what would become Section 109(a) changed very little. Yet, throughout these deliberations, Congress reiterated its unequivocal and unqualified acceptance of the *Bobbs-Merrill* holding. *See, e.g.*, H.R. Rep. No. 89-2237 (1966) *submitted with* H.R. 4347 (Oct. 12, 1966); H.R. Rep. No. 90-83 (1967) *submitted with* H.R. 2512 (Mar. 9, 1967).

By 1975, Abraham Kamenstein had retired as Register of Copyrights and was succeeded by Barbara Ringer. In October 1975, Ms. Ringer presented to Congress the Register's statement on then-pending H.R. 2223, 94th Cong. (1975). Although her comments did not address the first sale doctrine directly, she noted that the broad formulation of the first sale doctrine that had been considered by Congress for the past 14 years had "attracted no opposition":

> The proposal that royalties be imposed on the large-scale commercial resale of used copies of textbooks and other works received no support; it runs counter to the traditional 'first-sale' doctrine of copyright law embodied in section 109(a), which has attracted no opposition.

Draft Second Supplementary Report of the Register of Copyrights on the Revision of the U.S. Copyright Law: 1975 Revision Bill, 30 (Oct. 1975).

Ultimately, the first sale doctrine was adopted as Section 109 of the 1976 Copyright Act in substantially the same form in which it had been proposed in 1964. The House and Senate Reports summarize Section 109 in identical language. Both maintain the earlier focus on excluding pirated copies from the protection of the first-sale doctrine, without regard to the geographic source of the copies. Both memorialize that: "Section 109 restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means." H.R. Rep. No. 94-1476, 79 (1976); S. Rep. No. 94-473, 71 (1975).

At no point in its 13-year discussion of the phrase "lawfully made under this title" did Congress, as distinct from those who were attempting to

persuade it, address the geographic source of the pirated copies. Had Congress intended this phrase—"lawfully made under this title"—to somehow limit the scope of the first sale doctrine in the 1909 and 1947 Acts to only domestically-made copies, at least some articulation of this intent would be expected. Rather, both the House and Senate Reports note, specifically with respect to this phrase "lawfully made under this title":

> Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law, the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns a 'particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it.
>
> * * *

> This does not mean that conditions on future disposition of copies or phonorecords, imposed by contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.
>
> * * *
>
> To come within the scope of section 109(a), a copy or phonorecord must have been 'lawfully made under this title,' though not necessarily with the copyright owner's authorization. For example, any resale of an illegally 'pirated' phonorecord would be an infringement, but the disposition of a phonorecord legally made under the compulsory licensing provisions of section 115 would not.

Id. This summary of the first sale doctrine, as it was enacted in the 1976 Act, is critical for several reasons. First, Congress continues to endorse, without qualification, a broad formulation of the first sale doctrine, without regard to the location where the copy is made. Second, Congress expressly recognized that, while copyright owners retained the

ability to limit further distribution of their works under state law, they could not do so under the Copyright Act. Finally, Congress continues to focus on piratical copies. In spite of years of lobbying that the resale of legitimate but stolen copies should be excepted from the first sale doctrine, *see, e.g.*, *Quality King*, 523 U.S. at 147, the resale of legitimate copies that have been stolen was not excluded from the scope of the first sale doctrine. Nor did Congress express any intent to limit state laws precluding restraints on alienation of "lawful" copies.

Congress did not, as this Court does in *Quality King*, categorize copies as either: (1) pirated; or (2) lawfully made in the U.S.; or (3) lawfully made in a foreign country. *Id.* at 136, 146.

III. Alternative A: Denying First Sale Defense For Importing Foreign-Made Copies Conflicts With Supreme Court Prior Holdings and Congressional Intent

In addition to the arguments advanced by the Petitioner, AIPLA observes that several arguments support reversal of the Ninth Circuit's decision. First, the Ninth Circuit's reasoning that applying the first sale doctrine to foreign-made copies would have a prohibited extraterritorial effect, is incorrect. Second, the Ninth Circuit fails to give appropriate credit to the extensive legislative history of this provision. Third, the Ninth Circuit's approval of this restraint on alienation fails to account for the fact

that Copyright Law preempts state property law, resulting in outcomes that Congress expressly considered and rejected.

First, the Ninth Circuit recognized that the presumption against extraterritorial application stems from the notion that a U.S. statute applies "only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute." *Omega*, 541 F.3d at 987-88, citing Restatement (Second) of Foreign Relations Law of the United States § 38. Yet, Title 17 extends copyright protection itself to any work created anywhere in the world (for unpublished works) or in foreign nations that are "treaty party" nations (for published works). 17 U.S.C. § 104. Several sections of the Copyright Act evidence that Congress was concerned with the effect of foreign activities, effectively rebutting the presumption against extraterritorial effect. *See, e.g.*, 17 U.S.C. §§ 601, 602. The mere existence of the "manufacturing clause"—extending and limiting certain rights based on conduct occurring overseas, namely, foreign manufacture—rebuts the presumption against extraterritoriality.

For 93 years, Congress maintained an express requirement that certain types of works be made in the United States. This "manufacturing clause," although now expired was a feature of the Copyright Act of 1891, and of subsequent acts, including the 1976 Act. 17 U.S.C. § 601. It required that works—comprising preponderantly non-dramatic literary works in the English language that are

"protected by Title 17"—be manufactured in this country. More specifically, it barred their importation into the U.S. if they were not manufactured here. This requirement was explicit and unambiguous—"manufactured in the United States." 17 U.S. C. § 601. In stark contrast, Congress chose very different language to express the first sale doctrine in Section 109(a).

Extension of this manufacturing requirement to all other media—including visual works such as those at issue in this case—was expressly proposed in the 1897 Treloar Copyright Bill. H.R. 5976, 54th Cong. (1896), *as amended by* H.R. 8211, 54th Cong. (Apr. 15, 1896). This proposal failed in committee. In fact, Congress never enacted any manufacturing clause requirement for visual works.

Ultimately, in March of 1984, the "manufacturing clause" was held to violate the General Agreement on Tariffs and Trade (GATT). It did not expire until July 1, 1986. In the meantime, however, the manufacturing clause effectively kept the U.S. out of the Berne Convention until 1989. William Patry, *The United States and International Copyright Law: From Berne to Eldred,* 40 Hous. L. Rev. 749, 750-51 (2003).

Although the language of the manufacturing clause ("protected under Title 17") differs from that of Section 109(a) ("lawfully made under this title"), the concepts are at least comparable. The Ninth Circuit would require that to be "lawfully made" under this Title, the copy must be made in this

country. *Omega*, 541 F.3d at 990. Presumably the same would be true of the manufacturing clause's to be "protected under" this title, the copy would have to be made here. Yet, under the Ninth Circuit's reasoning, a foreign-manufactured copy could never be "protected" under Title 17 because this would have given the work the protection of U.S. law while it is located overseas, an extraterritorial effect.

Limiting the first sale doctrine to domestically-made copies would provide an incentive to manufacture abroad. A manufacturer seeking to restrain future distribution of its software, could merely manufacture in Canada or Mexico. Nothing justifies attributing such an intent to Congress in codifying the first sale doctrine. *C.f., Drug Emporium*, 38 F.3d 477, *and Denbicare*, 84 F.3d 1143.

Such a limited reading of "lawfully made under this title" would also impair the public display right under 109(c), which employs the identical language as 109(a). At several points during the legislative history, noted above, Congress addressed this display right, reaffirming the principles of the first sale doctrine. Yet, the Ninth Circuit's reasoning would allow foreign creators of a work to control public display of their sold works. Thus, current beneficiaries of the Picasso estate (or any other foreign-made, non-public domain work) would have the right to prohibit public display of the original work (considered a copy under the statute) in museums in the United States, even if the museum owns the work.

Second, nothing in the phrase "lawfully made under this title" inherently requires manufacture of the goods in the United States. As the above legislative history indicates, Congress recognized that the copyright owner's authorization is not required, provided that the work is made consistent with Title 17, that it is not piratical, or that it is otherwise authorized by the statute.

This court's holding in *Bobbs-Merrill* did not depend on whether the copies were "lawfully made under this title." When Congress codified the first sale doctrine it covered "any copy," regardless of where it was made. *Quality King*, 523 U.S. at 142, n.9. The copies made by Omega are not unlawful, under either the laws of the United States or of any other country.

Although analogies between different areas of the law are not controlling, *Bobbs-Merrill*, 201 U.S. at 342, 345, the Ninth Circuit's decision appears to be fundamentally inconsistent with recent developments in the law of exhaustion, estoppel, and waiver. The Ninth Circuit, by limiting the first sale doctrine, has enabled copyright owners to effect a continuing restraint on alienation. Yet, Omega sold copies at a price satisfactory to it. *Bobbs-Merrill*, 210 U.S. at 351. By selling these copies, at a minimum, Omega has exhausted its "exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152. Whether viewed as exhaustion, estoppel, or waiver, Omega has, by its own act, fully exploited its statutory right and

should not be permitted to effect a continuing restraint on alienation of the goods.

Third, the Ninth Circuit's decision wreaks havoc on property rights under state law. Copyright preempts state law, 17 U.S.C. § 301, including state laws protecting the rights of holders-in-due-course to dispose of their property with further transfers. This is precisely why Professor Nimmer warned Congress in November 1964 to alter the wording of the first sale doctrine. Panel Discussion and Comments on 1961 Report (Part 2) at 313.

Yet, under the Ninth Circuit's holding, the first sale doctrine would not apply. *Omega*, 541 F.3d at 990. As the Ninth Circuit held in *Drug Emporium*: the purchaser "had no more authority to distribute the copyrighted [work] than did the original importer." 38 F.3d at 482. Thus, a purchaser of a genuine Omega watch from Costco would not have the right to further distribute the watch. This incongruous outcome underscores some of the reasons why a first sale doctrine exists and why it was codified into the Copyright Act.

IV. Alternative B: Allowing First Sale Defense Conflicts With Congressional Intent And Renders § 602(a)(1) Redundant

Although creation or manufacture anywhere in the world can give rise to certain enforceable rights under the Copyright Act, the right of an owner to "sell or otherwise dispose of" a particular copy has

no effect beyond U.S. shores. The right to distribute the work in the U.S. does not compel a right to distribute it in any foreign country, any more than a right to distribute it elsewhere compels that the owner be allowed to distribute it in the U.S. This right to "sell or otherwise dispose" in Section 109(a) provides an opportunity to harmonize Section 109(a) with Section 602(a), resolving many of the issues identified in *Quality King*. There are three reasons for this result: (1) principles of statutory construction require that each portion of the statute be given some effect; (2) the right in Section 106 to distribute "to the public" is not implicated by foreign sales; and (3) regardless whether or not Section 109 is limited to domestically-made copies, the more specific provisions of Section 602 must be given effect over the more general provisions of Section 109, as a matter of statutory construction.

First, it is well-established that a court should avoid interpreting a statutory provision in a way that renders other provisions superfluous. *Freytag v. Comm'r of Internal Revenue*, 501 U.S. 868, 877 (1991). In contrast to Section 109, which permits distribution of the copy without the copyright owner's authorization, Section 602(a)(1) expressly precludes unauthorized importation. If making a non-piratical copy, anywhere in the world, voids the prohibition of Section 602(a)(1), then Section 602(a)(1) provides a private right of action against only piratical copies. *Quality King*, 523 U.S. at 136.

There is a problem with this reading, however. Section 602(a)(2) specifically provides that

the importation of copies, "the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright, if the title had been applicable" is an infringement. In other words, Section 602(a)(2) also covers piratical goods. 17 U.S.C. § 602(a)(2). Further, Section 602(a)(2) expressly provides a remedy by private right of action under Section 501. Thus, if the first sale doctrine is construed to extend to legitimate foreign-made goods, Sections 602(a)(1) and 602(a)(2) are redundant: both provide private rights of action against piratical copies.

Second, although the Court in *Quality King* treated Sections 106, 109, and 602 under the syllogism that Section 602 is a subset of Section 106 and both are subject to Section 109, 523 U.S. at 136, harmonizing Section 109 and Section 602(a) requires a closer analysis of the right to distribute. In *Quality King*, this Court found that, where the goods were manufactured in the United States and imported back into this country, Section 602(a) was subject to 109(a). The present facts, however, require a more nuanced reading of 602(a), without undermining this Court's holding in *Quality King*.

Section 106(3) specifically provides the copyright owner the exclusive right "to distribute copies . . . *to the public* by sale or other transfer of ownership, or by rental, lease or lending." 17 U.S.C. § 106(3) (emphasis added). The Committee Reports expressly provide that the copyright owner has "the right to control the first *public* distribution of an authorized copy or phonorecord of his work." H.R.

Rep. No. 94-1476, at 62 (emphasis added). Likewise Professor Nimmer notes that not every distribution of copies falls within 106(3), "but only such distributions as are made 'to the public.' " Nimmer on Copyright, Section 8.11 at 81-148.

Although this Court in *Quality King* held that importation is a subset of the distribution right, 523 U.S. at 151-52, distribution under Section 106(3) further requires conveyance "to the public." The mere act of importation—crossing the border—does not, by itself constitute distribution to the public within the meaning of Section 106. Section 602(a)(1), however, expressly provides that unauthorized importation is an "infringement of the exclusive right to distribute copies or phonorecords under section 106." In this sense, Section 602(a)(1) is more of an extension of Section 106(3) than it is a subset of that provision.

The House and Senate Reports confirm that "[i]f none of the exemptions in 602(a)(3) applies, any unauthorized importer of copies . . . could be sued for damages and enjoined from making any use of them, *even before any public distribution in this country* has taken place." H.R. Rep. No. 94-1476 at 170; S. Rep. No. 94-473 at 152. Thus, Congress recognized that importation precedes and is different than "public distribution." By expressly providing that unauthorized importation is an infringement of the distribution right, Section 602(a) extends a specific exclusive rights at the point of "[i]mportation into the United States."

For example, suppose a company in Windsor, Ontario, contracts with a U.S. copyright owner to make and distribute CDs throughout Canada. An enterprising Detroiter, seeing the value of a favorable exchange rate, travels to Canada and buys a truckload of the CDs. Absent Section 602(a), the copyright owner cannot stop the importation of these CDs into the United States. Yet, by extending infringement liability for the unauthorized importation, before the copies have been distributed to the public, Section 602(a) provides a remedy.

Importation transactions typically involve sales, as noted in *Quality King*. The same analysis applies when there has been a sale. Infringement occurs at the point of importation, whether or not the goods already have been sold in the foreign country because the foreign sale was not a distribution "to the public."

Under basic principles of extra-territoriality, absent an express statement to the contrary, a statute does not control conduct occurring outside the United States. Section 109 includes no such express statement. Thus, Section 109(a) cannot dictate whether an owner of a copy may or may not "sell or otherwise dispose" of that copy in Canada or anywhere else outside the United States, any more than Section 106(3) controls the distribution of copies outside the United States.

In the Detroit / Windsor-importer example, suppose the Windsor manufacturer sells the CDs to a Toronto distributor, who, resells them to a buyer in

Nova Scotia. Section 109(a)'s authorization to "sell or otherwise dispose" of the goods without authorization is not triggered until the CDs cross the border into the United States because the sales in Canada are not a distribution to the public. At the point the copies are imported, however, the importer is liable for infringement. Justice Stevens in *Quality King* referred to this view as a "cramped reading" of the importation right. 523 U.S. at 152. However, that observation was unnecessary to the *Quality King* holding because the first sale defense vested with a U.S. sale before any export or re-importation occurred.

If, on the other hand, the copyright owner authorized the importation, the importer would be free to "sell or otherwise dispose of" the CDs because, as this Court noted, the foreign sale of goods made in the U.S. divested the copyright owner of the right to control distribution *in the United States*. *Quality King*, 523 U.S. at 145 n.14. Nothing in the statute or legislative history requires that the act of importation itself constitutes sale or disposition of the goods. While this Court in *Quality King*, noted that an importer "sells or otherwise disposes," *id.* at 151-52, it reached that conclusion without examining the extra-territorial effect of a sale and disposition in another country of foreign-made goods.

None of this is to suggest that the right to "distribute" in Section 602 is not subject to Section 109(a) (and all of the other exceptions to Section 106), as this Court noted in *Quality King*. Rather, the exceptions each apply. Yet, before the copies

reach the U.S., there has been no distribution "to the public," therefore, the defenses have not yet been triggered.

Third, this analysis resolves an additional potential statutory conflict with which this Court wrestled in *Quality King*. Section 501(a) specifically provides, in pertinent part:

> Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . *or* who imports copies or phonorecords into the United States in violation of section 602, is an infringer . . . .

17 U.S.C. § 501 (emphasis added).

As this Court noted in *Quality King*, the use of the disjunctive "or" "is more consistent with an interpretation that a violation of § 602 is distinct from a violation of § 106," yet the Court concluded that such an inference was outweighed by other statutory language. 523 U.S. at 149. AIPLA respectfully submits that the specific language does not so much suggest an independent basis for relief but, rather, reflects Congressional intent to craft in Section 602 a more specific remedy than in Section 106.

The more specific remedy that Congress crafted in Section 602 controls the more general

provisions of the first sale doctrine in Section 109(a). *Bloate v. United States*, ___ U.S. ___, 130 S. Ct. 1345, 1354 (Mar. 8, 2010); *Gozlon-Peretz v. United States*, 498 U.S. 395 (1991). The Court's statements in *Quality King* that the exclusive rights in Section 602 are a subset of the rights in Section 106, subject to the provisions of Section 109, 523 U.S. at 136, fail to account for the fact that Congress crafted a more specific statutory right to exclude unauthorized importation. Although distribution without the authorization of the copyright owner is expressly protected by the first sale doctrine, 17 U.S.C. § 109, importation without the authorization of the copyright owner is expressly prohibited, 17 U.S.C. § 602.

Both provisions can be given effect. Viewing the statutory provisions as a whole, the right to preclude unauthorized imports must be viewed as an implicit exception to the first sale doctrine. Although Congress broadly embraced the first sale doctrine articulated in *Bobbs-Merrill* in 1909 and again in 1947, it did so in the context of domestically manufactured goods. When it faced the more specific question of foreign-made goods in 1976, it crafted a more specific exclusionary right in Section 602 that precludes unauthorized imports.

V. Effect of Reversing The Ninth Circuit; Effect of Affirming The Ninth Circuit

A. Reversal of the Ninth Circuit's Holding Would Vindicate the First Sale Doctrine

Reversal of the Ninth Circuit's holding will have concrete and practical implications for administration of the copyright law as well as for distribution of copyrighted works in increasingly global markets.

First, reversing the Ninth Circuit's decision conforms to the reasonable expectations of the parties, as well as of subsequent purchasers from them. If the Ninth Circuit's decision stands, holders-in-due-course of Omega's authorized, genuine Swiss-made watches will not be able to rely upon the basic provisions of the Uniform Commercial Code that they take their watches without any further restraint on alienation. Instead, holders-in-due-course will be subject to continuing claims of copyright infringement, *e.g.*, making it an infringement for a purchaser of a genuine Omega watch from Costco to further distribute the purchased watch. This result is untenable and clearly not what Congress intended.

Second, the policies articulated in the *Bobbs-Merrill* decision and echoed by Congress throughout the 1909, 1947, and 1976 Acts are vindicated by reversal of the Ninth Circuit's decision. As this Court stated in *Quality King*

> The whole point of the first-sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution. As we have recognized, the codification of that doctrine in §109(a) makes it clear that the doctrine applies only to copies that are "lawfully made under this title," but that was also true of the copies involved in the *Bobbs-Merrill* case, as well as those involved in the earlier cases applying the doctrine. There is no reason to assume that Congress intended either §109(a) or the earlier codifications of the doctrine to limit its broad scope.

523 U.S. at 152. In fact, the earlier codifications of what is now Section 109(a) expressly included "any copy" and would have covered Omega's Swiss-made works. As the Court noted in *Quality King*, there is no reason to assume, based on the extensive Congressional consideration of this language, that Congress intended any different result between the 1909 and 1976 Acts.

Third, mindful of this Court's admonition that "[t]here are such wide differences between the right of multiplying and vending copies of a production

protected by the copyright statute and the rights secured to an inventor under the patent statute, that the cases that relate to one subject are not altogether controlling as to the other," *Bobbs-Merrill*, 210 U.S. at 346, they may, nonetheless, be informative.

In *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), the Court noted that: "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." 553 U.S. at ___. Similarly, in the *Motion Picture Patents Co. v. United States* case, the Court reiterated the rule that: "the right to vend is exhausted by a single unconditional sale, the article being sold thereby being carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." 243 U.S. 502, 516 (1917). The Court noted further that it is a "longstanding principle that, when a patented item is "once lawfully made and sold, there is no restriction on [its] *use* to be implied for the benefit of the patentee." *Quanta*, 553 U.S. at ___ (emphasis in original). Although non-binding in this case, these principles echo and amplify this Court's holding in *Bobbs-Merrill*. They in no way depend on the geographic origin of the work.

In *Quanta*, LG Electronics argued that these exhaustion principles do not apply to the first sale of the patented product overseas because, as the foreign-made patented product is not made in the United States and, therefore, arguably not made "under" U.S. law, the overseas sale cannot infringe

under U.S. law. This Court rejected this argument in *Quanta*, stating: "*Univis* teaches that the question is whether the product is 'capable of use only in practicing the patent,' not whether those uses are infringing. . . . Whether outside the country . . . the Intel products would still be *practicing* the patent even if not infringing it." *Quanta*, 553 U.S. at ___ n.6 (emphasis in original).

Reversal of the Ninth Circuit's decision would preclude copyright owners from stopping unauthorized imports through a copyright infringement action. Yet, Congress expressly anticipated this outcome: "but it does mean that they could not be enforced by an action for infringement of copyright." H.R. Rep. No. 94-1476 at 79; S. Rep. No. 94-473 at 72. This would not leave the copyright owner powerless against "gray market" sales, but it would complicate the owner's ability to enforce restrictions on their distribution channels.

B. Affirmance of the Ninth Circuit's Holding Vindicates the Copyright Owner's Legitimate Need to Control Importation and Avoids Giving Extraterritorial Effect to National Laws

Affirmance of the Ninth Circuit's decision will likewise have substantial, practical, and very real effects on the administration of the copyright law and international trade in foreign-made works.

First, it will vindicate the ability of copyright owners to exercise legitimate control over the

international distribution of their works. An example involving literary works illustrates a problem that is not hard to imagine. Publishers of literary works, like producers of most products, are subject to local laws, and those laws may include restrictions tied to the local views on obscenity. It is conceivable that a publisher may well choose one distribution for its expurgated edition and a different distribution for its unexpurgated edition. If the first sale defense is allowed to defeat this legitimate need of the copyright owner to control its channel of trade, the copyright owner will lose ability to effectively manage the commercial return for its creative efforts.

Second, disallowing a first sale defense under these circumstances provides the copyright owner effective enforcement of Section 602 against importation of foreign-made copies, before they enter the distribution channel in the U.S. and are sold to holders-in-due course. This prevents the problems referenced above of disrupting the subsequent purchaser's expectations that they receive good and marketable title to the goods. Provided the first sale doctrine operates with respect to prior and subsequent sales, the limited Congressional exception for importation can be preserved consistent with a broad scope for the first sale doctrine. State law is unperturbed. Only importation is affected.

We live in an increasingly international trading system. This fact was not lost on the Congress, during the deliberations that led to the

1976 Act. Congress was aware of these facts and promulgated this language with these effects in mind. Affirmance of the Ninth Circuit's decision will vindicate these concerns.

VI. Conclusion

For the foregoing reasons, AIPLA respectfully requests that the Court clarify the scope of the first sale doctrine relative to importation of lawful goods that were made in a foreign country, as the resolution of this issue is of substantial importance to owners as well as purchasers of copyrighted works.

Respectfully submitted,

Dated: July 9, 2010

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
Alan J. Kasper, President
241 18th Street, South
Suite 700
Arlington, Virginia 22202
(703) 415-0780

*Patrick J. Coyne
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER, L.L.P.
901 New York Avenue, N.W.
Washington, D.C. 20001
(202) 408-4000

*Counsel of Record
Counsel for *Amicus Curiae*
American Intellectual Property Law Association

AMICUS CURIAE BRIEF

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In The
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF *AMICI CURIAE* OF THE AMERICAN LIBRARY ASSOCIATION, THE ASSOCIATION OF COLLEGE AND RESEARCH LIBRARIES, AND THE ASSOCIATION OF RESEARCH LIBRARIES IN SUPPORT OF PETITIONER

JONATHAN BAND
Counsel of Record
JONATHAN BAND PLLC
21 Dupont Circle NW
8th Floor
Washington, DC 20036
(202) 296-5675
jband@policybandwidth.com

Counsel for Amici Curiae

July 8, 2010

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
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INTEREST OF *AMICI*[1]

The American Library Association (ALA), established in 1876, is a nonprofit professional organization of more than 65,000 librarians, library trustees, and other friends of libraries dedicated to providing and improving library services and promoting the public interest in a free and open information society.

The Association of College and Research Libraries (ACRL), the largest division of the ALA, is a professional association of academic and research librarians and other interested individuals. It is dedicated to enhancing the ability of academic library and information professionals to serve the information needs of the higher education community and to improve learning, teaching, and research.

The Association of Research Libraries (ARL) is a nonprofit organization of 125 research libraries in North America. ARL's members include university libraries, public libraries, and government and national libraries. ARL influences the changing environment of scholarly communication and the public policies that affect research libraries and the diverse communities they serve.

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[1] The parties' letters granting blanket consent to the filing of *amicus* briefs are on file with the Clerk of this Court. No counsel for a party authored this brief in whole or in part, and no person other than *amici curiae* or its counsel made a monetary contribution to the preparation or submission of this brief.

Collectively, these three library associations (*amici* library associations) represent over 139,000 libraries in the United States employing over 300,000 librarians and other personnel.

One of the most basic functions of libraries is lending books and other materials to the public.[2] Section 106(3) of the Copyright Act grants the copyright owner the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by . . . lending." 17 U.S.C. § 106(3). However, the first sale doctrine, codified at Section 109(a) of the Copyright Act, exhausts the copyright owner's distribution right in a particular copy "lawfully made under this title" after the first sale of that copy. 17 U.S.C. § 109(a). The House Judiciary Committee Report on the 1976 Copyright Act explains that under Section 109(a), "[a] library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose." H.R. Rep. No. 94-1476, § 109, at 79 (1976), *as reprinted in* 1976 U.S.C.C.A.N. 5659, 5693. The first sale doctrine thus is critical to the operation of libraries: "[w]ithout this exemption, libraries would be unable to lend books, CDs, videos, or other materials to patrons." Carrie Russell, *Complete Copyright: An Everyday Guide For Librarians* 43 (2004).

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[2] Libraries circulate a wide variety of materials in addition to books, including journals, dissertations, computer programs, phonorecords, and audiovisual works. References in this brief to books could include these other materials.

This case concerns the meaning of the phrase "lawfully made under this title" in Section 109(a). The Ninth Circuit ruled that "lawfully made under this title" means lawfully manufactured in the United States. But many of the materials in the collections of U.S. libraries were manufactured overseas. Indeed, U.S. publishers now print an increasing number of books in China and other countries with lower labor costs. Thus, an affirmance of the decision below could jeopardize the ability of libraries to lend a substantial part of their collection to the public. In other words, how this Court interprets the phrase "lawfully made under this title" could determine the extent to which libraries can continue to perform their historic function of lending books and other materials to the public. *Amici* library associations respectfully request the Court to reject the Ninth Circuit's interpretation, and instead hold that copies "lawfully made under this title" means "copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights."

SUMMARY OF ARGUMENT

For almost four hundred years, libraries in America have promoted democratic values by lending books and other materials to their users. Notwithstanding the wide availability of content over the Internet, U.S. libraries engage in 4.4 billion circulation transactions a year. These circulation transactions do not infringe the copyright owners'

distribution rights because of the first sale doctrine codified at Section 109(a) of the Copyright Act.

By restricting the application of Section 109(a) to copies manufactured in the United States, the Ninth Circuit's decision threatens the ability of libraries to continue to lend materials in their collections. Over 200 million books in U.S. libraries have foreign publishers. Moreover, many books published by U.S. publishers were actually manufactured by printers in other countries. Although some books indicate on their copyright page where they were printed, many do not. Libraries, therefore, have no way of knowing whether these books comply with the Ninth Circuit's rule. Without the certainty of the protection of the first sale doctrine, librarians will have to confront the difficult policy decision of whether to continue to circulate these materials in their collections in the face of potential copyright infringement liability. For future acquisitions, libraries would be able to adjust to the Ninth Circuit's narrowing of Section 109(a) only by bearing the significant cost of obtaining a "lending license" whenever they acquired a copy that was not clearly manufactured in the United States.

This Court's decision in *Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc.*, 523 U.S. 135 (1998), does not mandate the Ninth Circuit's rule. The Ninth Circuit misconstrued an example in *Quality King* involving an author transferring the U.S. rights to one entity and the U.K. rights to another entity. Contrary to the Ninth Circuit, the key point in the example is not the place of manufacture, but the

territorial allocation of the reproduction and distribution rights. *Quality King* thus permits understanding the phrase copies "lawfully made under this title" to mean "copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights." Unlike the Ninth Circuit's rule, this interpretation of Section 109(a) advocated by *amici* library associations is consistent with the privileged status Congress has accorded libraries in Title 17. Also unlike the Ninth Circuit's rule, the interpretation advanced by *amici* library associations supports library users' First Amendment right to receive information.

If the Court decides to affirm the Ninth Circuit, *amici* library associations urge the Court to lessen the adverse impact on libraries by holding that: 1) parties can raise the first sale defense in cases involving foreign-manufactured copies so long as a lawful domestic sale had occurred; 2) the library exception in 17 U.S.C. § 602(a)(3)(C) applies to lending as well as importing; and 3) library lending constitutes a fair use under 17 U.S.C. § 107.

ARGUMENT

I. THROUGHOUT AMERICAN HISTORY, LIBRARIES HAVE PROMOTED DEMOCRATIC VALUES BY LENDING BOOKS TO THE PUBLIC.

Libraries are part of the fabric of American democracy. "U.S. libraries arose out of the democratic beliefs in an informed public, enlightened civic discourse, social and intellectual advancement, and participation in the democratic process." Byron Anderson, *Public Libraries, in St. James Encyclopedia of Popular Culture* 133 (Tom Pendergast & Sara Pendergast eds., 2000). In 1638, John Harvard bequeathed his collection of books to a newly established college in Cambridge, Massachusetts for the use of its faculty and students. Michael Harris, *History of Libraries in the Western World* 173 (1999). Benjamin Franklin in 1731 helped establish the Library Company of Philadelphia, which allowed its stockholders to borrow its books. *Id.* at 183-84.[3] William Rind created a commercial circulating library in Annapolis in 1763, which rented books for a small

[3] Benjamin Franklin explained his rationale for organizing a library: "by thus clubbing our Books to a common Library, we should, while we lik'd to keep them together, have each of us the Advantage of using the Books of all the other Members which would be nearly as beneficial as if each owned the whole." Benjamin Franklin, *The Autobiography of Benjamin Franklin* 130 (W. Labaree ed., 1964).

fee.[4] By the end of the eighteenth century, many towns throughout the new nation had academic libraries, membership libraries, circulating libraries or church libraries. Harris, *supra*, at 202-03.

In 1800, Congress established the Library of Congress. President Thomas Jefferson appointed the first Librarian of Congress, and sold his private collection to the Library of Congress in 1815, after its collection burned during the British occupation of Washington, D.C., in the War of 1812. Harris, *supra*, at 196-97.[5] Thomas Jefferson also articulated a vision of libraries across the country providing broad public access to books. In a letter to John Wyche, Jefferson stated that "I have often thought that nothing would do more extensive good at small expense than the establishment of a small circulating library in every county, to consist of a few well-chosen books, to be lent to the people of the county under regulations as would secure their safe return in due time." Thomas

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[4] "In many ways more democratic than the subscription social libraries, the circulating libraries often allowed women to have books, featured reading rooms with long hours, and provided access to a variety of reading matter, including newspapers, popular pamphlets, and novels." Dee Garrison, *Libraries, in Encyclopedia of the United States in the Nineteenth Century* (Paul Finkelman ed., 2001).

[5] The Library of Congress circulates materials to Members of Congress, thousands of Congressional employees, and other libraries (which can make the materials available to users within the library premises). The Library of Congress – Interlibrary Loan, http://www.loc.gov/rr/loan/loanweb1.html (last visited June 30, 2010).

Jefferson, Letter to John Wyche, May 19, 1809, *in Thomas Jefferson: A Chronology of His Thoughts* 223 (Jerry Holmes ed. 2002).

During the first half of the nineteenth century, access to books increased. Apprentice libraries were established for the use of young men migrating to the cities to help them "train for the new factory system which had been brought about by the industrial revolution." Jean Key Gates, *Introduction to Librarianship* 70 (1968). Mercantile libraries developed for the use of merchants and law clerks. School districts began to invest in libraries for their students. By 1853, New York State had created school district libraries throughout the state with over 1,604,210 volumes. *Id.* at 79. Horace Mann urged Massachusetts to follow New York's lead because he "saw the library as an essential contributor to the educational program of the school, as an invaluable aid in continuing education and in self-improvement, and an indispensable part of the cultural life of the people." *Id.* at 80.

In 1848, the Massachusetts legislature authorized the City of Boston "to establish and maintain a public library, for the use of the inhabitants. . . . " Boston Public Library – Founding Legislation, http://www.bpl.org/general/legislation.htm (last visited June 25, 2010). In the following decades, other public libraries were established, but the public library movement accelerated dramatically after 1881 through the philanthropy of steel magnate Andrew Carnegie. Carnegie said that "[t]here is not such a cradle of

democracy upon the earth as the Free Public Library, this republic of letters, where neither rank, office, nor wealth receives the slightest consideration." John Buschman & Gloria J. Leck, ed., *The Library as Place: History, Community, and Culture*, 74 (2007).[6] Carnegie ultimately funded the construction of 1679 public library buildings in 1,412 communities across the United States. Harris, *supra,* at 246-47.

In the twentieth century, the federal government expanded its support of libraries far beyond the Library of Congress. During the Great Depression, the Works Progress Administration built 350 new libraries and repaired many existing ones. Anderson, *supra*, at 133. In 1941, President Franklin Roosevelt issued a proclamation identifying libraries as "essential to the functioning of a democratic society" and "the great tools of scholarship, the great repositories of culture, the great symbols of the freedom of the mind." Patti Clayton Becker, *Books and Libraries in American Society During World War II: Weapons in the War of Ideas* 49 (2005). Congress enacted the Library Services Act of 1956 and the Library Services

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[6] "When mention is made of the dependence of a democratic society on an informed citizenry, the American public library usually comes to mind as the instrument which has had as its fundamental purpose the serving of this crucial need." Gates, *supra*, at 91. *See also* United States Office of Education, *Public Libraries in the United States of America* iii (1876) ("[O]ur libraries will fulfill in every respect their high station as indispensable aids to public education, to the privilege and responsibility of instructing our American democracy")

and Construction Act of 1964 to provide federal funding for library construction. Currently, the Institute of Museum and Library Services, an independent federal agency, administers the Museum and Library Services Act of 1996 and its 2003 reauthorization to channel millions of dollars of federal funding annually to libraries throughout the United States. Institute of Museum and Library Services, http://www.imls.gov (last visited June 25, 2010).

II. THE NINTH CIRCUIT'S INTERPRETATION OF SECTION 109(a) UNDERMINES THE ABILITY OF LIBRARIES TO LEND BOOKS AND OTHER MATERIALS TO THE PUBLIC.

A. Americans Borrow Books And Other Materials From Libraries 4.4 Billion Times A Year.

Notwithstanding the spread of digital technology, millions of Americans check out books and other materials from libraries. The collections of the over 9,200 public libraries in the country contain 812.5 million copies of printed materials, 45.9 million phonorecords, and 46.3 million copies of audiovisual materials. Institute of Museum and Library Services, *Public Libraries Survey Fiscal Year 2007* 10 (2009). For these materials, there were a total of 2.2 billion circulation transactions in 2007. *Id.* at 6. This represents a slight increase in circulation from 2.1 billion in 2006. Per capita circulation grew by 16% between 2000 and 2007. *Id.*

The collections of 81,920 public school media centers contain 959 million books and 42.6 million phonorecords and audiovisual materials. National Center for Educational Statistics, U.S. Department of Education, *Characteristics of Public and Bureau of Indian Education Elementary and Secondary School Library Media Centers in the United States: Results From the 2007-08 Schools and Staffing Survey* 9 (2009). These materials were checked out 2.05 billion times during the 2007-08 school year. *Id.* at 14.

The collections of 3,800 academic libraries include 1.05 billion copies of printed materials, as well as 110 million phonorecords and audiovisual materials. National Center for Education Statistics, U.S. Department of Education, *Academic Libraries: 2008* 8 (2009). There were a total of 179 million circulation transactions for these materials in 2008. *Id.* at 4.

B. Many Of The Materials Circulated By Libraries Are In Copyright And Were Manufactured Abroad.

1. Because of the complexity of determining whether a particular work is in the public domain, it is difficult to estimate what percentage of the collections of U.S. libraries is under copyright protection. In the course of the litigation over the Google Library Project, experts estimated that roughly eighty percent of the books in U.S. research libraries were in copyright. Jonathan Band, *The Long and Winding Road to the Google Books Settlement*, 9 J. Marshall

Rev. Intell. Prop. L. 227, 228-29 (2009). The collections of research libraries tend to contain more old books than the collections of other types of libraries, so an even larger percentage of the books in the public, school, and smaller academic libraries probably are still in copyright. Moreover, the vast majority of phonorecords and audiovisual materials in U.S. library collections are in copyright, given when they were created.

2. It also is difficult to determine what proportion of the collections of U.S. libraries was manufactured in the United States. During the Google Library Project litigation, it was estimated that over half the books in the research libraries partnering with Google had foreign publishers. *Id.* at 321. A survey of a larger set of research libraries indicates that approximately twenty percent of the books in these libraries have foreign publishers.[7] Cumulatively, U.S. libraries hold an estimated 200 million copies of foreign published books. Posting of Ed O'Neill to Metalogue: New Directions in Cataloguing and Metadata From Around the World, http://community.oclc.org/metalogue/ (June 24, 2010, 8:29 AM).

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[7] Some libraries, however, have a much higher percentage of foreign books. The vast majority of the 5 million items in the collection of the Center for Research Libraries in Chicago, for example, have foreign publishers. *See* Center for Research Libraries – Our Collection, http://www.crl.edu/collections/our-collection/ (last visited June 25, 2010).

But the number of foreign manufactured books in U.S. libraries could be far larger than 200 million. Even if a book was published by a U.S. publisher, a copy of that book may not have actually been printed in the United States. Publishing and printing are separate industries. Most U.S. publishing houses do not own their own printing presses; they outsource the printing to independent printing companies. Increasingly, these printing companies are located offshore, where labor costs are lower. Chinese companies, for example, often advertise printing costs up to 30% to 50% lower than U.S. printing firms. Offshore printers have increased in quality in recent years, and Internet connectivity makes job submission and management easier. Press Release, Strategies for Management, Offshore Printing Gaining New Ground; Newly Published Study Analyzes the U.S. Printing Industry's Growing Competition from Print Imports (May 20, 2010) *available at* http://haoodnla.com/article/lxy09211696y9j01/516024. In a 2006 survey of book publishers, 42% said that they had worked with an overseas print provider in the previous twelve months. Press Release, TrendWatch Graphic Arts, TWGA Study Evaluates Impact of Overseas Printing On Domestic Printing Industry (August 29, 2006) *available at* http://www.labelsandlabeling.com/news/twga_study_evaluates_impact_of_overseas_print. A 2006 survey of printing firms indicated that a third had lost a domestic printing job to a foreign competitor within the previous year. Ronnie H. Davis, *Printers' Perspectives on Global Opportunities and Threats, Economic & Print Market*

Flash Report, November 15, 2006, *available at* http://www.printnys.org/21. 47% of those competitors were in China; 16% in Mexico, and 12% in Canada. Price was the major competitive factor in 88% of these lost jobs. *Id.* In a 2007 survey of printers, 56% of respondents reported that a customer had purchased print from an offshore competitor within the previous twelve months. Ronnie H. Davis, *Printer Perspectives on Global Competition and Postage Rate Increase, Economic & Print Market Flash Report*, June 4, 2007, *available at* http://efiles.printing.org/ewebl/docs/Econ/2007.06.04.FlashReport.pdf. Comparison of tariff and publishing industry statistics for 2005 indicates that nearly a third of the books sold in the United States were printed abroad. *See* Harmonized Tariff Schedule of the United States § 4901 (2005 imports); Book Industry Study Group, Inc., *Book Industry Trends 2006* 13 (2005 total consumption).

Further complicating matters is that a U.S. printer that wins a contract from a U.S. publisher may subcontract the job to a foreign printer. Additionally, large U.S. printing companies own overseas printing facilities. Erik Cagle, *Overseas Sourcing – China: A Limited Threat, Printing Impressions*, May 2007, *available at* http://www.piworld.com/article/chinese-imports-loom-biggest-threat-us-book-printing-54444/1. The largest U.S. printing company, RR Donnelley, has facilities in 37 other countries. RR Donnelley – Locations, http://www.rrdonnelley.com/wwwRRD1/AboutUs/Locations/Locations.asp (last visited June 25, 2010). Thus, a book published by a U.S.

publisher that hired a U.S. printer may actually have been printed abroad. Unless a copy of a book specifically states on its copyright page that it was printed in the United States, a library has no practical way to learn where the book was printed.[8]

C. The Ninth Circuit's Interpretation Of Section 109(a) Deprives Libraries Of Protection From Copyright Infringement Liability For The Circulation Of Copies In Their Collections.

1. The Ninth Circuit interpreted the phrase "a particular copy or phonorecord lawfully made under this title" in Section 109(a) to mean a particular copy or phonorecord lawfully manufactured in the United States. Of the three billion copies and phonorecords in the collections of U.S. libraries, over 200 million have foreign publishers, and presumably were manufactured abroad. In addition, of the copies with U.S. publishers, a large but indeterminate amount was manufactured abroad through the outsourcing of printing to foreign firms. Accordingly, if the Court affirms the Ninth Circuit's decision, the first sale

[8] Many books do not state any place of manufacture, or list multiple possible places of manufacture. WorldCat, a global catalog of library collections, lists the place of manufacture for less than three percent of the book titles it catalogs. *See* Posting of O'Neill, *supra*. Libraries do not have the resources to contact the publishers of the billions of books in their collections to inquire about place of manufacture.

doctrine may no longer apply to hundreds of millions of lawfully acquired books, phonorecords, and audiovisual materials in the collections of U.S. libraries.

2. Libraries would then have to make a difficult policy decision: do they continue to circulate materials that may fall outside of the first sale doctrine in the face of potential copyright infringement liability?[9] Libraries could attempt to rely on defenses such as fair use or implied license, but it is far from certain that libraries could always assert them

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[9] The Fourth Circuit has held that "[w]hen a public library adds a work to its collection, lists the work in its index or catalog system, and makes the work available to the borrowing or browsing public, it has completed all the steps necessary for distribution to the public. At that point, members of the public can visit the library and use the work." *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 119, 203 (4th Cir. 1997). *Amici* library associations strongly disagree with the Fourth Circuit that making a book available for browsing and other uses on a library's premises constitutes a distribution for purposes of 17 U.S.C. § 106(3). And several district courts have criticized the theory of liability in *Hotaling*. *See Capitol Records, Inc. v. Thomas*, 579 F. Supp. 2d 1210, 1225 (D. Minn. 2008) (finding *Hotaling* is not "consistent with the logical statutory interpretation of § 106(3), the body of Copyright Act case law, and the legislative history of the Copyright Act"); *Elektra Entm't Group, Inc. v. Barker*, 551 F. Supp. 2d 234, 243 (S.D.N.Y. 2008) (finding *Hotaling* was "not grounded in the statute"); *UMG Recordings, Inc. v. Hummer Winblad Venture Partners (In re Napster, Inc.)*, 377 F. Supp. 2d 796, 803 (N.D. Cal. 2005) (finding *Hotaling* is "inconsistent with the text and legislative history of the Copyright Act of 1976"). Nevertheless, if *Hotaling* is correctly decided, the Ninth Circuit's rule would chill not only the lending of foreign-manufactured materials, but also the onsite use of foreign-manufactured materials.

successfully. For example, in litigation with a library that circulated a popular novel printed in Canada, the publisher might claim that three of the four fair use factors in 17 U.S.C. § 107[10] weigh in its favor: the work is a highly expressive work of fiction (factor 2); the library is lending the entire work (factor 3); and by lending its copy of the novel to dozens of readers, the library is depriving the publisher of potential sales (factor 4). The publisher might further assert that even the first fair use factor tips in its favor because the lending does not serve any educational

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[10] Section 107 provides:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.
>
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

purpose. The library, citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) and *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569 (1994), would contend that fair use permits its lending.[11] While *amici* library associations strongly believe that the library should prevail, there is no way to predict how a trial court would perform the fair use calculus.

3. Also unpredictable is the outcome of an assertion of an implied license defense.[12] If a library purchased a foreign-manufactured copy directly from the publisher or an exclusive distributor that knew it was selling the copy to a library, the library might convince a court that it had an implied license to circulate the copy. The library would have greater difficulty prevailing in this defense if it purchased the

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[11] Library lending enables the statutorily identified purposes for fair use: "criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research . . ." 17 U.S.C. § 107. Library lending also falls squarely within the purpose and character listed in the first factor: "nonprofit educational purposes." *Id.* Additionally, library lending facilitates their users' exercise of their First Amendment right to receive information. *See* discussion at section III.C.1., *infra*.

[12] Because of the enormous number of rightsholders of the materials in their collections, and the difficulty of identifying these rightsholders, libraries could not afford retroactively to seek permission to lend these materials. *See* Band, *supra*, at 228-230 (discussing the transaction costs of clearing the rights for the mass digitization of books in the context of the Google Library Project). As discussed in section II.D., *infra*, libraries could obtain lending licenses for future acquisitions only at a significant cost.

book from a wholesaler or retailer that might not have had the legal authority to grant a license to lend. Moreover, the library might not have any record of who sold it the copy, particularly a copy it purchased decades ago.

4. The importation exception in 17 U.S.C. § 602(a)(3)(C) provides libraries with only limited assistance with respect to the Ninth Circuit's rule. This exception provides that the Section 602(a) prohibition on importation does not apply to

> importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes. . . .

This exception contains several significant limitations. First, Section 602(a)(3)(C) provides a library with no relief with respect to copies it purchased from a distributor in the United States. Libraries often purchase foreign-published materials from U.S. distributors. In addition, libraries almost always purchase U.S. published materials – which may actually have been manufactured abroad – from U.S. distributors.

Second, although the exception clearly permits a library to *import* five copies for "its library lending or archival purposes," the exception by its terms does

not actually permit the library to *lend* those copies. In other words, Section 602(a)(3)(C) creates an exception to the Section 602(a) importation right, but not explicitly to the entire Section 106(3) distribution right. To be sure, an exception to the distribution right is implied – Congress is permitting the library to import the copies specifically for "library lending . . . purposes." It would make no sense for Congress to allow importation for the purpose of lending, but then not allow the lending itself. Nonetheless, a court might erroneously conclude that Section 602(a)(3)(C) does not explicitly permit the lending of the imported copies.

Third, even if Section 602(a)(3)(C) were correctly construed to permit the lending of the five imported copies, this permission would not apply to audiovisual works. The provision specifically allows a library to import "no more than one copy of an audiovisual work *solely for its archival purposes*." 17 U.S.C. § 602(a)(3)(C) (emphasis added.) U.S. libraries have tens of millions of copies of audiovisual materials, many of which were manufactured outside of the United States.[13]

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[13] The existence of this exception to the importation right does not imply that the Ninth Circuit correctly understood the first sale doctrine to apply only to copies manufactured in the United States. As discussed below, *amici* library associations believe that Section 109(a) applies to copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights. Were the Court to adopt this interpretation, libraries would still require the Section 602(a)(3)(C) exception to import and circulate copies manufactured with the

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5. The Ninth Circuit specifically reserved the question whether the "exception" it had articulated in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 47 (9th Cir. 1991) and *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 477 (9th Cir. 1996), survived this Court's decision in *Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc.*, 523 U.S. 135 (1998). Under the *Drug Emporium* exception, parties can raise the first sale defense in cases involving foreign-manufactured copies so long as an authorized domestic sale had occurred. The Ninth Circuit did not decide whether the *Drug Emporium* exception survived *Quality King* because the exception clearly did not apply to the facts of this case: "there is no genuine dispute that the copies of the Omega Globe Design were sold in the United States without Omega's authority." *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008), *cert. granted*, 130 S. Ct. 2089 (2010).

The *Drug Emporium* exception would provide assistance to libraries with respect to materials they purchased in the United States, assuming they had maintained records of where they had purchased these materials. However, in the absence of guidance from this Court on the continued viability of the *Drug Emporium* exception, libraries cannot rely on the hope that the exception still exists when making

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authorization of a person other than the holder of the U.S. rights.

circulation decisions that could expose them to significant copyright infringement liability.

Additionally, even if this Court were to adopt the *Drug Emporium* exception, the exception would apply only to copies purchased in the United States, not to copies purchased in another country. Libraries (or their agents) purchase many books and other materials directly from foreign publishers or distributors. The *Drug Emporium* exception would not extend the first sale doctrine to these copies.[14]

D. Without A Clear Exception, Libraries May Hesitate To Lend Materials In Their Collections.

Although various limitations on damages apply to libraries in copyright infringement cases, these limitations in practice will provide libraries with little relief from the evisceration of the first sale doctrine proposed by the Ninth Circuit. The sovereign immunity doctrine shelters public libraries and libraries that are part of public educational institutions from money damages liability, *see Kimel v. Fla. Bd. Of Regents*, 528 U.S. 62, 66-67 (2000), but copyright

[14] Libraries probably could not take advantage of the misuse defense that may be available to Costco in this case. Costco can argue that Omega is attempting to leverage the copyright in its logo into control over the distribution of its uncopyrighted watches. In contrast, libraries could not assert that rightsholders are trying to extend impermissibly the scope of their copyrights.

owners could still seek injunctive relief against the librarians and the administrators of the educational institutions. *See Ex parte Young*, 209 U.S. 123, 159-60 (1908). Likewise, even if a court decided to remit statutory damages against a library at a nonprofit private educational institution pursuant to 17 U.S.C. § 504(c)(2)(i),[15] the library would remain liable for actual damages and injunctive relief. 17 U.S.C. §§ 502, 504(a)(1).

Furthermore, as nonprofit institutions, libraries have highly constrained legal budgets and must avoid the appearance of impropriety so as to retain public trust. While most copyright owners probably would not sue a library for lending a lawfully acquired copy of a foreign printed book, libraries will not engage in conduct that is technically unlawful just because there is a low probability of litigation.[16] Also, given

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[15] Section 504(c)(2)(i) provides that "[t]he court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107, if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords. . . ."

[16] *See* Deborah Gerhardt & Madelyn Wessel, *Fair Use and Fairness on Campus*, 11 N.C. J.L. & Tech. (forthcoming Spring 2010), *available at* http://ssrn.com/abstract=1594934 (last visited June 25, 2010) ("Fear and risk aversion, rather than a reflective interpretation of the law too often influence practical decisions and copyright policy."); James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 Yale L.J.

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the large number of works in the collections of U.S. libraries, every library would reasonably fear that it could be sued multiple times if it continued to lend the materials in its collection. The median library in the Association of Research Libraries, for example, holds 3,546,496 volumes in its collection. Association of Research Libraries, *ARL Statistics 2007-2008* 27 (2009). If the rightsholders of only 1/100 of one percent of the volumes in its collection chose to enforce their newly broadened distribution right, the library would face over 350 copyright infringement actions. Compounding the risk for libraries is the highly visible nature of their circulation activities.

E. The Ninth Circuit's Interpretation Of Section 109(a) Would Increase Libraries' Acquisition Costs.

For future acquisitions, libraries would be able to adjust to the Ninth Circuit's narrowing of Section 109(a) only at a significant cost. A library could be forced to obtain, at a substantial premium, a "lending license" whenever it acquired a copy that was not clearly manufactured in the United States.[17] The

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882, 882 (2007) ("Intellectual property's road to hell is paved with good intentions. Because liability is difficult to predict and the consequences of infringement are dire, risk-averse intellectual property users often seek a license when none is needed.").

[17] Some publishers already price discriminate against libraries. *See* Christopher Hollister, *Price Inflation and Discrimination Extends to Non-STM Disciplines: A Study of Library and Information Science Journals*, 25 Current Studies in Librarianship

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library also would need to retain meticulous records of these licenses for the duration of the term of copyright protection in these works. These costs inevitably would reduce the number of acquisitions, to the detriment of the public and the copyright owners whose works the library did not purchase.[18]

The following statistics for library acquisitions demonstrate the magnitude of the burden the lending license would impose. In 2008, academic libraries purchased almost 24 million books and other paper materials and 3.46 million phonorecords and audiovisual materials at a cost of $650 million. National Center for Education Statistics, U.S. Department of Education, *Academic Libraries: 2008* 9, 13 (2009). In the same year, public school media centers acquired 45 million books and 2.5 million phonorecords and copies of audiovisual materials for $593 million. National Center for Educational Statistics, U.S. Department of Education, *Characteristics of Public and Bureau of Indian Education Elementary and*

25, 49 57 (Spring/Fall 2001). The Ninth Circuit's rule would accelerate this phenomenon. Additionally, publishers could begin to include disclaimers on an implied license to lend. They also could remove statements concerning place of manufacture to create doubt among libraries even when the copies were manufactured in the United States. Of course, the opportunity to license would not apply to materials donated or sold to libraries by private collectors who were not the copyright owners.

[18] Alternatively, library spending could be increased – primarily at taxpayer expense.

Secondary School Library Media Centers in the United States: Results From the 2007-08 Schools and Staffing Survey 6 (2009). In 2007, public libraries purchased an estimated 75 million works at a cost of $1.34 billion. Institute of Museum and Library Services, *Public Libraries Survey Fiscal Year 2007* 94 (2009). If libraries had to pay a lending license "tax" of twenty percent of the purchase price on a third of these materials,[19] libraries would have to pay a tax of over $150 million for each year's acquisitions. Of course, the publishers might demand more than twenty percent of the purchase price, and more than a third of the materials acquired each year might be foreign manufactured.[20]

III. THE NINTH CIRCUIT'S INTERPRETATION OF SECTION 109(a) IS LEGALLY FLAWED.

A. The Ninth Circuit's Rule Is Not Required By *Quality King*.

1. In its brief at the petition stage, the United States attempted to minimize the likelihood that the "serious policy concerns" identified by Petitioner and its *amici* would "actually materialize[ ]." (Br. for the

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[19] *See* discussion of the increasing levels of foreign manufacture *supra* Part II B.

[20] Unlike the typical tax on private entities to fund public institutions, the Ninth Circuit's tax would be levied largely on public institutions to enrich private entities.

United States as *Amicus Curiae* Supp. Pet. Cert. 19.) It argued that "the phrase 'lawfully made under this title' in Section 109(a) has been understood for a quarter of a century to exclude foreign-made copies," and that in that twenty-five year period the potential adverse effects of this interpretation had not manifested themselves. *Id.* But the phrase "lawfully made under this title" has not widely been understood for a quarter of a century to exclude foreign manufactured copies. Just twelve years ago, in *Quality King*, the United States argued as *amicus curiae* "that the application of Section 109(a) does not turn on the place of manufacture, but that Section 109(a) instead encompasses 'any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17." *Id.* at 11, n. 4 (citations omitted). The United States did not abandon this interpretation until it filed its *amicus* brief in this case in March 2010.

2. The United States justified its change of position on the ground that its interpretation of Section 109(a) in *Quality King* "appears to be inconsistent with the Court's holding that Section 109(a) does not apply to copies that are created with the author's consent but pursuant to the law of another country." *Id.* The United States evidently was referring to the Court's example of an author transferring the exclusive U.S. distribution rights to the publisher of the U.S. edition, while transferring the exclusive British distribution rights to the publisher

of the British edition. The Court observed that presumably only the copies "made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." *Quality King*, 523 U.S. at 148. In contrast, the copies made by the British publisher would be "lawfully made under the law of another country." *Id.*

The *Quality King* example involves an author transferring the U.S. rights to one entity and the U.K. rights to another entity.[21] The example does not address the situation of an author transferring the U.S. rights and the U.K. rights to the same publisher.[22] Furthermore, the *Quality King* example says nothing about the actual place of manufacture of the copies; the same printer in China may have produced both the U.S. and the U.K. editions. The key point in the example is not the place of manufacture, but the territorial allocation of the reproduction and

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[21] It appears that the author transferred (or exclusively licensed) to each publisher the right to reproduce that country's edition and the right to distribute those copies in that country.

[22] Often, a publisher will require an author to transfer her entire copyright in a work as a condition of publication, which means that the publisher obtains all rights in the work worldwide. If the author has more leverage, she may succeed in negotiating agreements that allocate markets. For instance, she might transfer to one publisher the rights to distribute an English version of a novel in English-speaking countries, while she transfers to another publisher the rights to distribute the Spanish translation of the novel in Spanish-speaking countries, and she might sell the worldwide film rights to a motion picture studio.

distribution rights. The author granted one publisher the exclusive right to authorize the printing and subsequent distribution of copies of the U.S. edition in the United States, and granted another publisher the exclusive right to authorize the printing and subsequent distribution of copies of the U.K. edition in the United Kingdom. Given this allocation of the reproduction and distribution rights, copies manufactured with the authorization of the holder of the U.K. rights are not "lawfully made under this title."

However, the *Quality King* example in no way precludes all copies produced with the authorization the holder of the U.S. rights from being considered "lawfully made" under Title 17, regardless of whether the rightsholder is a U.S. or U.K. company, and regardless of where the copies are actually manufactured. Thus, the *Quality King* example is consistent with interpreting copies "lawfully made under this title" to include all copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights.[23]

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[23] Under this interpretation, copies manufactured beyond the scope of a U.S. rightsholder's lawful authorization would not be "lawfully made under this title." For example, if the author of a novel granted a publisher the U.S. rights in an English-language version of the novel, and the publisher proceeded without authorization to cause the manufacture of copies of the novel in Spanish, those Spanish copies would not be "lawfully made under this title."

3. Interpreting Section 109(a) to apply to all copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights permits libraries to lend books to the public.[24] For the vast majority of the foreign-published books in the collections of U.S. libraries, the rightsholder in the country of publication probably is also the holder of the U.S. rights. As a general matter, the rights in only the most popular books get allocated among different publishers in different countries to maximize sales. Thus, most of the foreign-published books owned by U.S. libraries were manufactured with the authorization of the holder of the U.S. rights, and fall within *amici* library associations' suggested interpretation of Section 109(a).

Similarly, all U.S.-published books would fall within this definition; they would be manufactured with the authorization of the holder of the U.S. rights, even if they were actually printed outside the United States.

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[24] This interpretation is substantially the same as that advanced by Petitioner here and by the United States in *Quality King*.

B. The Ninth Circuit's Rule Is Inconsistent With The Privileged Status Congress Has Accorded Libraries In Title 17.

1. Recognizing the importance of libraries, Congress has accorded them a privileged status in Title 17. In addition to benefiting from exceptions of general applicability, such as the fair use and first sale doctrines, libraries and educational institutions enjoy protections Congress has provided specifically to them. Section 108 permits libraries and archives to reproduce and distribute copies for purposes of preservation, replacement of damaged or missing copies, and interlibrary loans. Section 108(h) shortens the copyright term by twenty years for certain library uses related to scholarship or research.[25] The House Judiciary Committee Report on the 1976 Copyright Act, in its discussion of Section 109(a), specifically refers to libraries: "[a] library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose." H.R. Rep. No. 94-1476, § 109, at 79 (1976), *as reprinted in* 1976 U.S.C.C.A.N. 5659, 5693. Section 109(b)(1)(A) provides libraries with an exception to the prohibition on the rental of phonorecords and computer programs.

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[25] In *Eldred v. Ashcroft*, 537 U.S. 186, 220 (2003), the Court described this provision as one of the Copyright Term Extension Act's "supplements" to the Copyright Act's "traditional First Amendment safeguards" such as the fair use doctrine and the idea/expression dichotomy.

Section 110(1) allows the performance and display of works in the course of face-to-face teaching activities of educational institutions (and thus libraries affiliated with educational institutions).[25] Similarly, Section 110(2) permits performances and displays for purposes of distance education. Section 121 allows libraries and other institutions with the primary mission of providing specialized services to the visually disabled to reproduce and distribute copies in accessible formats such as Braille. Section 504(c)(2)(i) permits courts to remit statutory damages to libraries, archives, and educational institutions in cases of innocent infringement. Section 512(e) adapts the limitations on liability for online services providers to the higher education environment. Section 602(a)(3)(C) provides organizations operated for scholarly, educational, or religious purposes with an exception to the importation right for library lending and archival purposes. Section 1201(d) of the Digital Millennium Copyright Act gives libraries, archives, and educational institutions the right to circumvent technological protection measures on a copy for purposes of determining whether to acquire a copy of the work.

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[25] Affirmance of the Ninth Circuit could narrow the scope of this exception. Section 110(1) permits the performance in a classroom of a motion picture or other audiovisual work unless the performance "is given by means of a copy that is not lawfully made under this title." If the Ninth Circuit's interpretation of the phrase "lawfully made under this title" in Section 109(a) is applied to Section 110(1), this exception would no longer allow foreign films to be performed in U.S. classrooms.

Section 1203(c)(5)(B) allows a court to remit statutory damages to libraries, archives, and educational institutions in cases of innocent violations of the DMCA. Moreover, Section 1204(b) excludes libraries, archives and educational institutions from criminal liability for DMCA violations. Congress has adopted these exceptions over almost thirty years, reflecting its deep, ongoing commitment to enabling libraries to operate in a period of rapid technological change.[27]

2. The Ninth Circuit's interpretation of Section 109(a) runs contrary to the privileged status granted by Congress to libraries in Title 17. The Ninth Circuit's rule would seriously compromise the ability of libraries to lend the materials already in their collections. For future acquisitions, libraries would have to acquire a lending license at substantial cost. If this Court were to affirm the Ninth Circuit, this Court would in essence create a European-style "public lending right." *See* Council Directive 92/100/EEC, 1992 O.J. (L346) (EU). Under public lending right regimes, libraries must compensate copyright owners

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[27] Congress included Sections 108, 110(1), 504(c)(2)(i), and 602(a)(3)(C) in the 1976 Copyright Act. Congress then added the library protections in Sections 109(b)(1)(A) in 1980 and 1990; in Section 121 in 1997; in Sections 108(h), 512(e), 1201(d), 1203(c)(5)(B), and 1204(b) in 1998; and in Section 110(2) in 2002. Similarly, "orphan works" legislation, which contained a special safe harbor for libraries, archives, museums, and educational institutions, passed the Senate in 2008. Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2008).

in order to receive permission to lend books and other materials to the public.[28] Congress has never shown any interest in importing this alien concept to this country. It conflicts with the nearly four hundred-year history of American libraries lending lawfully acquired books without additional compensation to the rightsholder. In contrast to the Ninth Circuit's rule, the understanding of "lawfully made under this title" advocated by library association *amici* is consistent with Congress's long-standing support for libraries.

C. The Ninth Circuit's Rule Interferes With Library Users' First Amendment Right To Receive Information And Alters The Traditional Contours Of Copyright Protection.

1. This Court has recognized a First Amendment right to receive information. *Reno v. American Civil Liberties Union*, 521 U.S. 844, 876 (1997). In considering the constitutionality of a school board's removal of books from a public high school library, the Court stated, "the right to receive ideas is a necessary predicate to the *recipient's* meaningful exercise of his

[28] *See* PLR International – Frequently Asked Questions, http://www.plrinternational.com/faqs/faqs.htm#recognise (last visited June 30, 2010). Depending on the country, the rightsholder is compensated on the basis of either the number of times the work is borrowed each year or the number of copies of the work owned by the library.

own rights of speech, press, and political freedom." *Board of Education v. Pico*, 457 U.S. 853, 867 (1982) (emphasis in original). The Court in *Pico* faulted school board members' "attempt to extend their claim of absolute discretion beyond the compulsory environment of the classroom, into the school library and the regime of voluntary inquiry that holds sway there." *Id.* at 869. For this right to receive information to be effective, for a library's "regime of voluntary inquiry" to truly exist, libraries must be able to lend materials so that users can peruse them conveniently at their own pace. Section 109(a) allows this lending to occur. Thus, at least with respect to libraries and their users, Section 109(a) is one of copyright law's "built-in First Amendment accommodations." *Eldred*, 537 U.S. at 219. The Ninth Circuit's rule, however, significantly impairs the utility of Section 109(a); the rule will have a chilling effect on the ability of libraries to enable users to exercise their First Amendment right to receive information. In contrast, the definition of "lawfully made under this title" advanced by library association *amici* does not suffer from this constitutional infirmity.

2. Limiting libraries' ability to lend books and other materials to the public would "alter[ ] the traditional contours of copyright protection." *Eldred*, 537 U.S. at 221. For almost 400 years, libraries in America have been lending books. Library lending predates the Statute of Anne passed by Parliament in 1710, the Intellectual Property Clause in the U.S. Constitution, the First Amendment, and the Copyright Act

of 1790.[29] Copyright law, from 1790 forward, has placed no restrictions on a library lending material in its collection.

The foreign works in library collections have been particularly unconstrained by copyright. Until 1891, the works of foreign authors received no copyright protection in the United States. 1 William Patry, *Patry on Copyright* § 1:38 (2008). After the enactment of the International Copyright Act in 1891, a foreign author could receive copyright protection in the United States only if three conditions were met: 1) the foreign author's country provided copyright protection to the works of U.S. authors; 2) the foreign author complied with the formalities of U.S. copyright law (*e.g.*, notice and deposit); and 3) the work was printed from type set in the United States, if the work was in English. *Id.* This final condition, known as the manufacturing clause, remained in effect until 1986. *Id.*

The Ninth Circuit's rule would alter the traditional contours of copyright protection by inhibiting libraries from lending copies of books and other materials manufactured outside of the United States. The Court can avoid this result by rejecting the Ninth Circuit's rule, and instead interpreting copies "lawfully

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[29] The Framers were intimately familiar with borrowing books from libraries. Because of the high cost of books in Colonial America, libraries were a primary source of books for every level of society. *See* Harris, *supra*, at 173-184.

made under this title" to mean copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights.

3. Section 109(a) should be interpreted in a manner consistent with the constitutionally mandated purpose and function of the copyright laws. *See Bilski v. Kappos*, 561 U.S. ___, 2010 WL 2555192, at *30 (June 28, 2010) (Stevens, J., concurring). This Court has declared that "[t]he primary objective of copyright is not to reward the labor of authors, but 'to promote the Progress of Science and the useful Arts.'" *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340, 349 (1991), *quoting* Art. I, § 8, cl. 8. The Court has recognized that "[c]reative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other Arts." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). Because it jeopardizes library lending, the Ninth Circuit's interpretation of Section 109(a) clearly frustrates "the cause of promoting broad public availability of literature, music, and the other Arts." Conversely, the definition of "lawfully made under this title" suggested by *amici* library associations better serves the purpose and function of the copyright laws.

If, however, the Court decides to affirm the Ninth Circuit, *amici* library associations request the Court to frame its decision carefully so as to reduce the adverse effect on libraries and their users. First, the Court should adopt the *Drug Emporium* exception,

and hold that parties can raise the first sale defense in cases involving foreign-manufactured copies when an authorized domestic sale had occurred. *See* discussion at Part II.C.5., *supra*.[30] Second, the Court should find that the library exception in 17 U.S.C. § 602(a)(3)(C) applies to lending as well as importing. *See* discussion at Part II.C.4., *supra*. Third, the Court should indicate that the fair use doctrine permits a library to lend foreign manufactured copies if the lending does not fall within the *Drug Emporium* or Section 602(a)(3)(C) exceptions. *See* discussion at Part II.C.2., *supra*. Unless the Court's decision contains these three holdings, affirmance will interfere with libraries' ability to perform their historic function of lending books and other materials to the public.

[30] In support of such a holding, the Court could interpret the word "made" in Section 109(a) as "cause[d] to exist, occur, or appear." *Merriam Webster Dictionary* 313 (1998). "Lawfully made under this title" could then mean lawfully manufactured (caused to exist) or placed in commerce (caused to occur or appear) in the United States.

CONCLUSION

For the foregoing reasons, *amici* library associations respectfully urge this Court to reverse the Ninth Circuit's decision. Alternatively, the Court should frame its decision in a manner that mitigates the damage affirmance would inflict on libraries and their users.

Respectfully submitted,

JONATHAN BAND
Counsel of Record
JONATHAN BAND PLLC
21 Dupont Circle NW
8th Floor
Washington, DC 20036
(202) 296-5675
jband@policybandwidth.com

Counsel for Amici Curiae

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AMICUS CURIAE BRIEF

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IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

—v.—

OMEGA, S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF ASSOCIATION OF AMERICAN PUBLISHERS AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

JON A. BAUMGARTEN
PROSKAUER ROSE LLP
1001 Pennsylvania Avenue
Suite 400 South
Washington, D.C. 20004
(202) 416-6800

CHARLES S. SIMS
Counsel of Record
SARAH REISMAN
AIMEE TAUB BANDLER
PROSKAUER ROSE LLP
1585 Broadway
New York, New York 10036
(212) 969-3000
csims@proskauer.com

Counsel for Amicus Curiae

September 7, 2010

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INTEREST OF *AMICUS CURIAE*[1]

The Association of American Publishers, Inc. ("AAP") is the major national association of publishers of general books, textbooks and educational materials. Its approximately 200 members include most of the major commercial book publishers in the United States and many smaller or non-profit publishers, including university presses and scholarly associations. AAP members publish hardcover and paperback titles in every field, thousands of which are also published abroad (some by AAP publishers and their affiliates, some by unrelated publishers).

AAP members and their counsel played a major role in the lengthy revision process culminating in the 1976 Copyright Act, and in subsequent revisions, and can advise the Court with first-hand knowledge of the considerations that – then as now – amply justified Congress in protecting copyright by rendering infringing the unauthorized importation of copies made abroad under foreign law for use abroad, whether those copies are piratical or authorized.

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[1] The parties have consented to the filing of this brief by letters filed with the Clerk. No counsel for a party authored this brief in whole or in part, and no counsel for a party (nor a party itself) made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus* or its counsel made a monetary contribution to its preparation or submission.

SUMMARY OF ARGUMENT

The unauthorized importation of books acquired outside the United States and made under foreign law infringes the exclusive rights of the United States copyright owner.

The exclusive right to import copies acquired abroad is of great importance to copyright owners. Central to the ability of copyright to "promote the progress of science and useful arts" is the exercise of Congress's power to secure for limited times, to authors, the exclusive right to reproducing and distributing their works. Importation of works protected by U.S. copyright, without the authority of the U.S. copyright owner, makes those rights radically insecure, and diminishes both the value of the copyright and its power to stimulate further creation and distribution.

By prohibiting the importation of copies acquired abroad, 17 U.S.C. § 602(a)(1) protects core aspects of the exclusive distribution right, ensuring that U.S. copyright owners have, as Congress intended, the right to determine when and where to distribute their works, at what price, and with what content.

Costco's proposed construction would substantially harm copyright owners and the public, impairing the incentives to create and disseminate copyrightable work, the quality of published works, and the vitality of domestic publishers.

Costco's argument that the first sale doctrine in 17 U.S.C. § 109 applies to any copies acquired abroad

so long as they were authorized by the U.S. copyright owner or a "related" foreign copyright owner virtually neuters § 602(a)(1). Neither statutory text nor the structure of these and related statutory provisions support that argument. The history of the drafting and enactment of § 602(a)(1) shows that the provision was intended to bar the unauthorized importation of any copies made under foreign law for foreign use, whether piratical or authorized. Congress never made that proposition depend on whether the party authorizing the copies under foreign law was "related" to the U.S. copyright owner. Construing §§ 109 and 602(a)(1) to embody that distinction is insupportable under the history and text of § 602(a)(1). That construction would simply incentivize U.S. copyright owners to structure their arrangements so that foreign rights would be held by "unrelated" parties, adding complexity and transaction costs to the exploitation of copyrights that Congress never required or suggested, without any gain whatever to the policies Costco says animate its overreaching yet arbitrary construction of the first sale doctrine.

ARGUMENT

I. THIS CASE INVOLVES STATUTORY PROVISIONS OF GREAT SIGNIFICANCE TO THE PUBLISHING INDUSTRY

The briefs by Costco and its *amici* proceed as if this case concerns trade policy and consumer choice

issues, rather than the proper construction of the copyright statutes that further copyright's vital ends.

Although this case concerns wristwatches, the issue before this Court has implications far beyond the ability of manufacturers to protect copyrighted labels on consumer goods. Congress enacted the pertinent statutes pursuant to its power to "promote the Progress of Science and useful Arts" by "securing for limited Times to Authors" the exclusive right to their writings. The expansion of the exclusive right to import crafted by Congress in the 1976 Act secured those exclusive rights, as the Ninth Circuit correctly recognized. The arguments of Costco and its *amici* would make those rights fundamentally insecure, and destroy the exclusive rights to import and distribute that the Framers contemplated and Congress has provided for.

By permitting the unrestricted importation of any copies of any works previously sold once abroad (whether to consumers or otherwise), the legal principles that petitioner and its supporting *amici* would have this Court adopt would have devastating consequences for the protections provided under the Act to authors, publishers, and others involved in the creative industries whose works have their principal value in copyright. For authors and publishers (as well as those involved in motion pictures, sound recordings, and so forth), the rights secured by §§ 106(3) and 602(a)(1) are not merely incidental to the Copyright Act's structure of incentives to create

original works.[2] Rather, the right to control initial distribution of original works within the United States is integral to the Copyright Act's protections designed to foster creativity for the public good. A result that allows copies acquired abroad and made under foreign law to leak back into the United States without restraint under copyright law would be contrary to the clear language and history of § 602(a)(1), and cause U.S. copyright owners substantial harm.[3]

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[2] What is now 17 U.S.C. § 602(a)(1) was originally adopted in 1976 as § 602(a) of Title 17. We refer to the provision according to its current codification.

[3] For convenience, the category of works subject to § 602(a)(1) outside the reach of § 109's first sale doctrine – works acquired outside the United States and not made under U.S. copyright law – is referred to sometimes here as "works made abroad for use abroad," or "works made abroad under foreign law," without meaning thereby to suggest that Congress's focus was narrowly on the place of manufacture.

A. Section 106(3) and Section 602(a) Provide Copyright Owners Rights Against Distinct Acts Of Infringement

Section 106 grants to copyright owners several exclusive rights with respect to copyrighted works, "subject to" specified limitations set forth in "sections 107 through 120." 17 U.S.C. § 106. Among these exclusive rights is the right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3).

The distribution right in § 106(3) is an integral component of the incentives in the Copyright Act. By recognizing a distinct exclusive distribution right, the Copyright Act ensures that, in addition to preventing unauthorized reproductions of copyrighted works, an owner may prohibit unauthorized exploitation of such works through public distribution. "[G]ranting the distribution right is a necessary supplement to the reproduction right in order fully to protect the copyright owner." 2 Melville B. Nimmer & David Nimmer. NIMMER ON COPYRIGHT (1997) § 8.12[A], at 8-142.

But § 106(3) does not simply supplement the right to control reproduction. "It would be anomalous indeed if the copyright owner could prohibit public distribution of his work when this occurred through unauthorized reproduction, but were powerless to prevent the same result if the owner's own copies (or copies authorized by him) were stolen or otherwise

wrongfully obtained and thereafter publicly distributed." *Id.* The § 106(3) right "encompasses not only the choice whether to publish at all, but also the choices of when, where, and in what form first to publish a work." *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 564 (1985). Subject to statutorily enumerated limitations, the distribution right gives a copyright owner the exclusive right to control distribution of legitimate as well as pirated copies, and prevents others from distributing legitimate copies of copyrighted works without the owner's consent.

U.S. copyright law has recognized for more than a hundred years that the right of exclusive distribution is insufficient to protect copyright owners, and has long provided for a right to prevent unauthorized importation as well, independently. Until the 1976 Act, the protection against importation was limited to piratical copies (that is, copies that were created without the authorization of any relevant copyright owner). Chapter 6 of the 1976 Act, however, went further, enacting inter-related provisions extending past piratical copies to authorized copies made abroad generally, as the text of § 602(a) makes plain and as confirmed by the legislative history discussed below in Point II.B.

Recognizing the importance of the right to control initial distribution of copyrighted works, Congress enacted § 602 as a broad right of action against imports of copies acquired outside the United States made under foreign law, whether those copies are

piratical or authorized. Section 602(a)(1) makes infringing *any* importation "without the authority of the owner of copyright under this title" of "copies . . . "that have been acquired outside the United States."

As recognized in *Quality King Distrib., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 145 (1998), § 602(a)(1) prohibits acts that are distinct from acts of unauthorized distribution. The § 106(3) exclusive distribution right allows a copyright owner to prevent the unauthorized distribution of copies "to the public by sale or other transfer of ownership, or by rental, lease, or lending." *Id.* at 142. By contrast, on its face, § 602(a)(1) provides a right of action against unauthorized importation-- whether or not those copies have previously been distributed or sold or are in the course of being sold, and whether or not possession of or control over those copies has ever changed.

Importation, by definition, entails the carrying or transfer of copies across borders. See BLACK'S LAW DICTIONARY (6th ed. 1990) at 755 ("Importation -- The act of bringing goods and merchandise into a country from a foreign country") (citing *Cunard Steamship Co. v. Mellon*, 262 U.S. 100 (1923)). It would cover, for example, the shipping to the U.S. of copies acquired abroad by or to an enterprise like Costco, even if there had not yet been any dissemination of those copies to the public (which would be required for infringing distribution under § 106(3)). There may have been, but need not be, a prior sale, transfer of possession, or other distribu-

tion. *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 170 (1976) (§ 602(a) allows actions against unauthorized importers of goods acquired abroad "even before any public distribution in this country has taken place"); S. Rep. No. 473, 94th Cong., 1st Sess. 152 (1975) (same).

Not only the legislative history addressed below, but also the basic rules of construction that require meaning to be accorded to every statutory provision, make plain that in enacting § 602(a)(1) Congress was seeking to reach conduct not reached under § 106(3) alone. Otherwise, there would have been no need for authors or publishers to reach agreement to seek, or for Congress to grant, the broad protection against importation covered by § 602; § 106(3) would have sufficed. Section 602(a) further secures copyright owners' exclusive rights and the value of their U.S. copyrights by adding another weapon (beyond the distribution right) to the copyright owner's arsenal–the right to prevent unauthorized importation of copies before they even cross the border for distribution to third-party U.S. vendors or purchasers.

B. For Copyright-Based Industries, Section 602(a) Protects Core Aspects Of The Exclusive Distribution Right

The construction of § 109 adopted by the Ninth Circuit and virtually all prior courts[4] and contended for by book publishers and others results not from

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[4] *See* Respondent's Brief at 22-23 & n.8 (citing cases).

any effort to end-run around limitations to the parallel import right under the trademark and customs laws, as Costco charges. Rather, preventing unauthorized importation and distribution of copies made abroad is fundamental to securing the exclusive rights that copyright affords to authors and publishers, which necessarily enable them to control the timing, content, packaging, pricing, and (in some instances) quality of their releases to the American public – *i.e.*, the crucial "choices of when, where, and in what form first to publish a work" integral to the § 106(3) right. *Harper & Row*, 471 U.S. at 564.

1. Timing

Publishers (and others who fund and arrange for the distribution of copyright-based products) often follow a pattern of sequential release across geographic markets and formats. "Staggered" release dates enable copyright owners to coordinate and maximize pre-release publicity for anticipated distributions within particular regions. Distribution of a book or sound recording may be launched initially in a pertinent market abroad, and then subsequently in the U.S. so that national release may coincide with a U.S. publicity "tour" by the author or recording artist.

Staggered release may also serve to create a popular "buzz" or crescendo of demand before the recording is released in the large U.S. market. A book may be initially distributed in the United Kingdom, with U.S. distribution occurring if and

after international demand reaches a particular level. Or highly anticipated U.S. works may be first released outside the U.S., such as the initial release of "Toy Story" in Mexico, to diminish incentives for international piracy. Differences in seasonal timing involving the start of the "fall" semester in the southern and northern hemispheres may create the need for timed release of college textbooks.

Parallel import of copyrighted works acquired abroad interferes with copyright owners' ability to exploit their works within a region through control over when a work is first distributed and through coordination of the initial distribution with pre-release publicity. The importation of copies made and acquired abroad undermines the copyright owner's exclusive right to control the manner and timing of their U.S. distribution.

The problem is particularly heightened for works that follow a sequential distribution pattern for different formats or media, as well as for different geographic markets. The release of hardback and paperback versions is routinely staggered. A work first distributed or released abroad may progress to paperback version in that market while the title is still in hardback domestically. Parallel imports of paperback versions interfere with the U.S. copyright owner's right to exploit fully the "window" for hardback release.

2. Pricing

Parallel imports also undermine copyright owners' ability to exercise their right to control the pricing of their works, a critical component of the distribution right. Wide price variations between domestic and international markets for copyright-based products are important and necessary for copyright-based industries to exploit their products internationally and to further develop international markets. Such price variations are the result of local demand, local ability to pay, local taxes, local regulations and international treaty obligations, local manufacturing and distribution costs, piracy concerns, and local infrastructure.

As copyright-based industries enter and develop new markets, they price products to make them attractive to local consumers, while permitting the industries to generate positive net income. This pricing structure is made economically viable by the relatively low marginal cost of creating additional copies of copyrighted works compared to the significant expense of creating the work itself (together with its initial production costs; editing, layout, etc.). Some publishers – to make products affordable in local markets, encourage education, discourage piracy, and build literacy and good relations – may create special editions of textbooks at lower prices for foreign markets. (For example, some textbooks created initially for the U.S. higher education market are sold in cheaper editions, with different paper,

illustrations, etc., for the market in India and China).

By strategically pricing products, copyright-based industries encourage local demand and development of local infrastructure for such products. This has at least two significant benefits. First, it encourages further creative activity by promoting markets from which copyright owners, which have made a significant investment in producing works, can recoup such investment. In this way, strategic pricing serves one of the fundamental purposes of the Copyright Act – to promote creative expression by allowing copyright owners to realize economic benefit from their creations. Second, development of local demand for copyrighted works promotes the wide dissemination of copyrighted works. Strategic pricing serves the principal purpose of the Copyright Act – "promoting broad public availability of literature, music, and the other arts" and thus creates a private incentive "to stimulate artistic creativity for the general public good." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

The downside to the variation in pricing between the domestic and international markets is that it incentivizes third parties to export to the U.S. copies made (and perhaps distributed) under foreign law abroad, thus invading the copyright owner's exclusive right to distribute in the United States. The incentive and ability to exploit price differentials through cross-border movement of copies is likely to

increase in the future, as language barriers throughout the world continue to erode and English increasingly becomes a lingua franca.

Importation and distribution of copies acquired at reduced prices abroad derogate from the Copyright Act's mandate of enabling the copyright owner to control the pricing and distribution of works.

3. Content

Because of the varying cultural appeal of many copyright-based works, owners may distribute their works with varying content in different national markets. Due to censorship, threatened boycotts or marketing considerations, a title in one market may have varied content from the U.S. release. A short story collection released in England may contain a work about abortion that might effectively prevent its school use in South Dakota or Kansas. A compact disc released in a foreign country may contain different or additional "tracks" than a similar recording by the same artist released in the United States. Yet if the price differential is sufficient, versions released for foreign distribution will likely be imported to undersell similar copyrighted works distributed domestically. Importation of copies intended for audiences abroad interferes with the copyright owner's creative decision concerning what to distribute in a given market, and displaces sales benefitting U.S. copyright owners.

C. *Costco*'s Proposed Construction Would Cause Copyright Owners and the Public Substantial Harm

Construing § 109 as Costco urges would substantially harm the publishing industry, authors, and the public.

Most educational publishers currently print at least two different editions of their textbooks – one for domestic distribution and one or more for international distribution. The domestic editions are often printed in the United States using high quality products and binding and are bundled with supplemental materials including teaching aids and online resources. State and local regulatory requirements also add additional cost.

International editions, on the other hand, are priced based on what purchasers in the intended market can afford. For many (although not all) works, production quality is significantly reduced to keep production costs commensurately low. To create a textbook for sale in India, for example, publishers would reduce costs by using lower quality paper and covers, removing color images, and using inferior bindings.

Construing § 109 to change what has been understood as the law since its enactment – to make the importation of books made under foreign law not infringing – would have precisely the consequence any economist would expect. Copies of foreign editions would be imported en masse, by large

campus-based bookstores, Internet resellers, and others. Domestic editions would quickly lose market share to resold international editions, which are often half or a quarter of the price of the domestic editions. The loss of revenue from domestic editions would drastically reduce the ability of publishers to compensate authors for their work and lead to significant changes in publishers' business models which, in turn, will cause ripple effects beyond the publishing industry.

The educational publishing industry relies on the revenues from the sale of domestic editions to support the extensive research and development necessary to ensure that the information in textbooks is current and accurate. Development costs are large; it may take three years to develop a new textbook, which will be rigorously researched, tested and reviewed throughout that period. Development is the most expensive part of the process of creating new or revised texts, and is vital to ensuring that the published works contain the most current and accurate information, in the most usable form.

The development phase is funded by the profits from the sale of the domestic editions of the textbooks. The revenue from the international editions cannot and does not fully support the rigorous and time consuming development process currently in place. A decline in profit margins occasioned by adoption of Costco's argument would mean that textbooks will be published less

frequently, publishers will be less willing to include new and/or developing research, and the books will not be vetted to their current rigorous standards. Less time will be devoted to the testing and review of books. Quality would suffer in multiple respects. Given the harm that foreign editions could cause, the result might be an unfortunate increased focus on domestic editions alone.

More fundamentally, decreased margins (and diversion of sales for foreign copies) would also predictably decrease the royalties and advances that authors currently receive, reducing the incentives to new works for both authors and publishers. If fewer academics are willing to engage in the labor intensive process required to write a textbook, textbook quality will suffer.

II. THE FIRST SALE DOCTRINE IS NEITHER A DEFENSE TO INFRINGING IMPORTATION NOR A LIMITATION ON THE EXCLUSIVE RIGHT TO IMPORT BOOKS ACQUIRED OUTSIDE THE UNITED STATES MADE UNDER FOREIGN LAW

A. Plain Language and Structure

The briefs for Costco and its *amici* proceed as if this case begins and ends with § 109. Section 602(a) is introduced as an afterthought (in Costco's brief) or not at all (the briefs of nearly all its *amici*). But analyzing this case that way is Hamlet without the ghost. The wrong complained of is actionable under § 602(a)(1) and § 501 and the prime question is not

just what § 109 means, but, first, what § 602(a)(1) means. While we do not suggest that analysis need end there, careful attention to the structure of those provisions and review of the legislative history underlying § 602(a)(1) makes plain that Congress intended it to have the broad reach its plain text commands, providing copyright owners with protection, absent *their* consent, from the importation of copies – whether piratical or not – acquired abroad and made under foreign law for use abroad.

The evidence from 17 U.S.C. § 501. In § 501, Congress treated unauthorized importation as an infringing act distinct from the violation of § 106 rights:

> Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 or of the author as provided in section 106A (a), *or who imports copies or phonorecords into the United States in violation of section 602*, is an infringer of the copyright or right of the author.

That § 501's infringement cause of action treats importation separately from distribution argues for the inapplicability of § 109 to a claim for infringing importation, as Justice Stevens' opinion in *Quality King* noted. 523 U.S. at 145-46. Pointing in the same direction is the text of § 109, which specifies that it applies "notwithstanding the provisions of section 106(3) . . . ." Congress could have, but did

not, specify that § 109 applies "notwithstanding the provisions of § 106(3) and § 602," or that § 602(a)(1) is "subject to" § 109. Instead, § 109 applies "notwithstanding the provisions of section 106(3)" alone, and does not include "importing" among the actions (selling or disposing of possession) that the owner of a copy "lawfully made under this title" may take.[5] *Id.* at 136-37.

The evidence from 17 U.S.C. § 602(a)(3). Additional evidence is supplied by the express exceptions Congress crafted. As those exceptions show, Congress took care to craft exceptions to § 602's broad prohibition on the importation of copies "without the authority of the owner of copyright under this title." Those exceptions would have been unnecessary had the first sale doctrine generally applied to imported copies. Indeed, the case for Costco's reading of the statute is even worse, for all three carefully crafted exceptions (for governmental use, scholarly and educational use, and the so-called "suitcase exception") involve previously sold copies, but only a small subset of them. (Note too that Congress was clearly considering books, as the reference to libraries in § 602(a)(3)(c) reflects.)

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[5] We recognize that *Quality King* rejected an argument that the first sale doctrine is categorically inapplicable to imported copies. The Court need not revisit that issue to affirm here. But since *Quality King* involved goods made in the U.S. (which then made a round trip abroad), it plainly did not decide that the first sale doctrine applies to copies acquired abroad made under foreign law.

Congress's exceptions open the § 602(a)(1) gate only slightly, not the wide breach for previously sold copies that the arguments of Costco and its *amici* would entail. Adoption of Costco's construction of § 109 would virtually make those three exceptions surplusage.

Of course, the fact that it has become easier today using the Web to seek books from foreign sources cannot legalize the practice nor detract from enforcing the law as Congress intended; to the contrary, that increased ease only magnifies the potential harm. But in view of Congress's consideration of the harm to copyright threatened by broadscale importation of copies made under foreign law, and provision of exceptions to avert any resulting inconvenience to individuals or even the Government and certain institutions, there is no occasion for displacing Congress's choices by a construction of § 109 that would effectively neuter § 602(a)(3) and make them irrelevant.

The use of "under this title" in 17 U.S.C. § 602. Justice Ginsburg's concurring opinion in *Quality King*, the brief of the United States opposing the writ in this case, and the Ninth Circuit's opinion in this case all cogently and correctly show why the phrase "under this title" in 109 renders the first sale doctrine inapplicable to copies made under foreign law (*i.e.*, made abroad for use abroad, unlike the copies in *Quality King* that were made in the United States). Justice Ginsburg's concurrence emphasized that *Quality King* decided only that copies made in the

U.S., which had taken a "round-trip," were "lawfully made under" title 17 and therefore subject to § 109. As then-Solicitor General Kagan put it (U.S. invitation brief at 12),

> Respondent's wristwatches were neither "lawfully" nor unlawfully "made under [Title 17]" because they were not "made under" Title 17 at all.

See also Quality King, 523 U.S. at 136 (recognizing that §602(a) applies to "a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead under the law of some other country.")

The works of John Updike or Philip Larkin, licensed to a British publisher for reproduction and distribution in the United Kingdom, are "lawfully made" under UK copyright law. But it would be odd to characterize such copies as "lawfully made under this title" – that is, under U.S. copyright law, as *Quality King* itself noted. It seems inapt to categorize copies produced in the U.K. by the UK copyright owner, or under its license, as "lawfully made under U.S. law," which has no application whatever.[6] Any

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[6] An example from a related field shows how odd and unnatural Costco's analysis is. If a pharmaceutical company in the United States developed a drug for which it obtained the right to manufacture and market in France but not yet in the United States, its authorization to a French pharmaceutical house would not make the drug "lawfully made under" U.S. law.

right to authorize reproduction or distribution in the U.K. arises under U.K. copyright law, not U.S. law.

What neither Costco nor its allies have noted is that the central portion of the phrase "lawfully made under this title" from § 109, which Costco struggles so unsuccessfully against, is also used in § 602, where it unmistakably is used in the service of creating a meaningful exclusive right of importation for the U.S. copyright owner. Section 602(a) makes infringing the "importation into the United States, *without the authority of the owner of copyright under this title*, of copies or phonorecords of a work that have been acquired outside the United States." Congress used the "under this title" clause in § 602(a) to give the owner of the U.S. copyright the exclusive right to import (or what is the same thing, to preclude importation).

Whoever else throughout the world owns the copyright under the law of other nations, it is only the "owner of copyright *under this title*" who controls the exclusive right to import into the U.S. copies "that have been acquired outside the United States . . . ." Ownership of the U.S. copyright is the only basis for authorizing importation into the U.S. Neither § 602 nor any other provision grant the owner of a copyright under any foreign law the authority to export copies to the U.S. without the consent of the U.S. copyright owner.

Costco's statutory argument ignores that under its view Congress used "under this title" in § 602 to

exactly the opposite purpose that it used the same phrase in § 109. Under Costco's view, what Congress gave to copyright owners by using "under this title" in § 602, it promptly took away in § 109.

By contrast, noting the relationship of the two uses of "under this title," and treating Congress's decision to use the same phrase as advertent illuminates the relationship of the two provisions. It would odd in the extreme if Congress, having used "under this title" in § 602 to give the U.S. copyright owner the exclusive right to import, used the same phrase in § 109 to weaken that right fatally. Yet Costco's argument is exactly that: under its reasoning, any grant by the "owner of copyright under this title" of a right to make copies in any of hundreds of countries abroad – no matter how hedged by contractual restrictions – necessarily entitles that foreign licensee to export those copies to the United States "without the authority of the owner of copyright under this title . . . ," and regardless of contractual restrictions.

B. Legislative History

This Court has repeatedly relied on the and lengthy and unusually thoughtful legislative history of the 1976 Copyright Act, which reflects a series of compromises and judgments made jointly by creators, publishers, and other affected participants.[7]

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[7] E.g., *Feist Publ'ns, Inc. v. Rural Tel. Servs. Co, Inc.*, 499 U.S. 340, 357, 359-60 (1991); *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 743 (1989); *Harper & Row*, 471 U.S. at

The legislative history of § 602(a) confirms that Congress intended to make unauthorized importation of works acquired abroad (and made abroad for foreign use) infringing of copyright, regardless of whether the goods were piratical or authorized.

The legislative history shows both the drafting and the adoption of critical language that was clearly intended to protect against the unauthorized importation of any quantity of product -- whether licensed or unlicensed, whether piratical or genuine.

Before the 1976 Copyright Act, there was no restriction on the importation of copies manufactured without the authorization of the United States copyright holder. The prior law, §106 of the 1909 Copyright Act, had simply offered the narrow prohibition of the "importation into the United States . . . of any piratical copies of any work copyrighted in the United States . . ." Act of Mar. 4,

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552; *Mills Music, Inc. v. Synder*, 469 U.S. 153, 159-61 (1985); *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). As the Court noted in *Reid*, where it unanimously relied on the Act's legislative history, the Act "was the product of two decades of negotiation by representatives of creators and copyright-using industries, supervised by the Copyright Office and, to a lesser extent, by Congress." 490 U.S. at 743. That history is particularly telling where, as in *Reid* and this case, the "lengthy history of negotiation and compromise which ultimately produced the Act" reflects clearly and without contradiction that only one of the positions argued before the Court is faithful to the statutory language and the clearly documented intentions of those engaged in the drafting process. *Id.*

1909, ch. 320, § 30, 35 Stat. 1075, 1082 (1909). In order to constitute a piratical copy, it had to be shown that the rights of the copyright owner had been contravened not only as to importation but also as to production. *See* Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision Part 2: Discussion and Comments on Report of the Register of Copyrights on General Revision of the U. S. Copyright Law*, at 212 (Comm. Print 1963) [hereinafter Discussion on Report of the Register (Part 2)].

In 1961, the Register of Copyrights issued its report for a revision of the copyright law, recommending that the provision dealing with the importation of piratical copies should not be changed to cover the copies of books that are imported in contravention of the territorial rights of a U.S. publisher. *See id.* at 193-194. The Register reasoned that extending the ban to include authorized copies would "impose the territorial restriction in a private contract upon third persons with no knowledge of the agreement." *See* Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law*, at 126 (Comm. Print 1961) [hereinafter Report of the Register (Part 1)].

The Register was acutely aware of the harms caused by these unauthorized imports, of the difficulties publishers had in enforcing territorial limitations, and of the obvious solution of extending

the import ban on piratical copies to cover those unauthorized copies. *See* Report of the Register (Part 1), at 125-126 ("When arrangements are made for both a U.S. edition and a foreign edition of the same work, the publishers frequently agree to divide the international markets. The foreign publisher agrees not to sell his edition in the United States, and the U.S. publisher agrees not to sell his edition in certain foreign countries. It has been suggested that the import ban on piratical copies should be extended to bar the importation of the foreign edition in contravention of such an agreement.") But at that early date the report suggested that agreements to divide territorial markets were "primarily a matter of private contract." *See* Discussion on Report of the Register (Part 2), 194 (statement of Barbara Ringer, Copyright Office).

Publishers quickly rejected the idea that a contract remedy was adequate. *See* Discussion on Report of the Register (Part 2), 212-213 (statement of Horace Manges, American Book Publishers Council, Inc.) ("When a U.S. book publisher enters into a contract with a British publisher to acquire exclusive U.S. rights for a particular book, he often finds that the English edition, for instance, of that particular book finds its way into this country. Now it's all right to say, 'Commence a lawsuit for breach of contract.' But this is expensive, burdensome, and, for the most part, ineffective. The copyright law provides a remedy here . . ."). Instead, they and their allies insisted that protection had to come from

copyright law, and that a statutory fix was needed to expand the exclusive right to bar importation. *See id.* at 232 (joint comment of American Book Publishers Council, Inc. and American Textbook Publishers Institute) ("Where a foreign publisher agrees with a U.S. publisher not to sell his edition of a particular book in the United States, it often happens that, in contravention of such an agreement, the book finds its way into the United States to the detriment of the American publisher. . . . [T]he problem of protecting the U.S. publisher in a situation such as outlined above, could be met if the definition of piratical copies were broadened . . . then copies imported into the United States in violation of a territorial agreement such as described above, having been so imported in contravention of the rights of the copyright proprietor (even though legally produced), would be piratical copies and therefore not importable."); *id.* at 275 (comment, Walter Derenberg) (" . . . I would favor an express recognition in the proposed new bill of the principle of territoriality of copyright. In other words, I would be in favor of extending the import ban on piratical copies to genuine foreign printed books which are sought to be imported into the United States without the consent of the U.S. copyright proprietor. . . . I do not quite share your reluctance 'to impose a territorial restriction in a private contract upon third persons with no knowledge of the agreement.' . . . I can see no reason why a territorial assignee of the copyright should be deprived of this avenue of protection."); *id.* at 327 (comment, Horace Manges)

("I would favor the above-quoted suggestion in your report 'that the import ban on piratical copies should be extended to bar the importation of the foreign edition in contravention of such an agreement.' Such a ban would serve to solve the above-mentioned importation problem by prevention instead of having to depend upon the more costly and otherwise less desirable method of resorting to a burdensome application for an injunction, and probably after some damage has already occurred.").

In light of these discussions, the 1964 preliminary draft prepared by the Copyright Office reversed the Register's previous recommendation and extended the importation right to cover piratical and authorized copies alike:

> §44. Importation of Infringing Copies or Records
>
> (a) Importation into the United States of copies or records of a work for the purpose of distribution to the public shall, if such articles are imported without the authority of the owner of the exclusive right to distribute copies or records under this title, constitute an infringement of copyright actionable under section 35.

Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 3, Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft*, at 32 (Comm. Print 1964).

This provision of the preliminary draft was expressly described as encompassing "the importation for distribution in the United States of foreign copies that were made under proper authority but that, if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States." Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U. S. Copyright Law*, at 203 (Comm. Print 1964) [hereinafter Further Discussions on Preliminary Draft (Part 4)] (statement of Abe Goldman, Copyright Office); *see also id.* at 205-206 (statement of Sydney Kaye, Broadcast Music, Inc.) ("'[P]iratical copies' has been defined, even under the present § 106, as meaning a work which is both illegally produced and imported. It does not apply to works legally produced in Europe, and the present statute does. That is the enlargement to which I am referring.")

The preliminary draft sparked discussions and comments from publishers that focused on this new protection of the U.S. publishers' exclusive right to control the importation of copies made abroad that were authorized under foreign law. Seeking clarification of the precise scope of the expanded protection, Harriet Pilpel, representing authors, questioned the meaning of "the owner of the

exclusive right to distribute copies or records under this title," asking:

> PILPEL: . . . I don't know what "the owner of the exclusive right to distribute copies or records" really means, since there will be several owners of several exclusive rights to distribute copies or records. One such owner might be the British publisher. Another owner might be Time, Inc. as when they published "The Old Man and the Sea" in *Life Magazine*, and another owner might be Harper and Row Publishers if they publish the book version of what has first appeared in a magazine, and so forth and so on.
>
> In the first place, don't you have to say "the owner of an exclusive right," or change it in some other way to make it clear? In the second place, don't you mean to limit it to the owner of an exclusive right in the United States?
>
> GOLDMAN: We also mean to limit it to the owner of the exclusive right to distribute the kind of copies that are being brought in.
>
> PILPEL: Well then, that ought to be stated, because otherwise it sounds like one owner of one exclusive right.
>
> GOLDMAN: Isn't that implied?

PILPEL: It doesn't seem implied to me.

Further Discussions on Preliminary Draft (Part 4), 212-213 (statements of Harriet Pilpel and Abe Goldman).

Irwin Karp, speaking for authors, also noted that the new provision would apply to authorized copies, not just piratical ones:

> KARP: [Under this section] importation of copies that were legally made in the first place becomes infringement if the copies are imported without the authority of the owner of the exclusive right to distribute copies. How far down the line of distribution will this extend? If a bookseller buys copies from a jobber who legally bought them from a German publisher, would he be guilty of infringement?
>
> In other words, some American importer buys from a German jobber, who legitimately bought the copies from the German publisher, who had authority to make and sell them. Then he sells them into the United States, and the American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies. Would that be an infringement under this section?
>
> GOLDMAN: I should think the result of this section would be that anybody who

imports without authority into the United States for the purposes of distribution to the public would be an infringer.

***

KARP: . . . If a German jobber lawfully buys copies from a German publisher, are we not running into the problem of restricting his transfer of his lawfully obtained copies?

GOLDMAN: I would suppose that the whole answer depends on whether the distribution would take place in the United States would itself constitute an infringement of copyright. When you apply this rule about the effect of the first sale of a copy exhausting the right to control the further distribution of that copy, your question would be whether this represents a sale of the copy that does exhaust the right.

KARP. You are right, Abe.

GOLDMAN: This could vary from one situation to another, I guess. I should guess, for example, that if a book publisher transports copies to a wholesaler, this is not yet the kind of transaction that exhausts the right to control disposition.

Further Discussions on Preliminary Draft (Part 4), 210-211.

On July 20 and August 12, 1964, the 1964 Revision bill was introduced in the Senate and the House respectively. The pertinent provisions stated:

> §44. Infringing importation of copies or phonorecords.
>
> (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work for the purpose of distribution to the public is an infringement of the exclusive right to distribute copies or phonorecords under section 5; actionable under section 35.

Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 5: 1964 Revision Bill with Discussions and Comments*, at 25-26 (Comm. Print, 1965).

The identical language of §44(a) of the 1964 Revision Bill was carried over to the 1965 Revision Bill as §602(a). *See* Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 1965 Revision Bill*, at 292 (Comm. Print 1965) [hereinafter Supplementary Report of the Register (Part 6)]. The Register's Supplementary Report on the 1965 Revision Bill specifically articulated a situation, covered by § 602(a), where "the copies or phonorecords were lawfully made but their distribution in the United

States would violate the exclusive rights of the U.S. copyright owner. This would occur, for example, where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." Supplementary Report of the Register (Part 6), at 149-150.

The 1965 Revision Bill also included, within § 602(a), an exception for the importation "by an organization operated for scholarly, educational or religious purposes and not for personal gain, with respect to copies or phonorecords intended to form a part of its library." *Id.* Due to criticisms, however, the exceptions were further limited to only three specific examples: (1) importation for governmental use other than in schools (but "not including copies of any audiovisual work imported for purposes other than archival use"); (2) importation for personal use of no more than one copy or phonorecord of a work at a time, or of articles in the personal baggage of travelers from abroad; or (3) importation by non-profit organizations "operated for scholarly, educational, or religious purposes" of "no more than one copy of an audiovisual work solely for its archival purposes", and no more than five copies or phonorecords of any other work for its library lending or archival purposes. *See* H.R. Rep. No. 89-2237, 167 (1966). There were no other reported discussions about any other exceptions to the provision.

Ultimately, the language of § 44(a), as settled in the 1964 Revision Bill, was enacted twelve years

later without change as § 602(a) of the 1976 Copyright Act. *See* Pub. L. 94-553, Title I, §101, Oct. 19, 1976, 90 Stat. 2589. As summarized by the House Report accompanying the bill, "Section 602(a) first states the general rule that unauthorized importation is an infringement merely if the copies or phonorecords 'have been acquired outside the United States' but then enumerates three specific exceptions . . . ." H.R. Rep. No. 94-1476, 169 (1976). The Report also confirmed that "[i]f none of the three exemptions applies, *any* unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution has taken place." *Id.* at 170 (emphasis added).

Thus, although the Register had been initially reluctant to enlarge the prohibition of importation from piratical copies to include all unauthorized imports, the history of the development of what became § 602(a) makes it unmistakably clear that that provision was intended to reach "any" copies acquired abroad made under foreign law, piratical and authorized copies alike. The argument of Costco and its allies destroys that accomplishment, ignores that history and the text that resulted from it, and attempts to restore the law to the limited application to piratical copies that it was the very purpose of §44 to expand.

C. Costco's Failed Effort to Give § 602(a) Some Meaning Relies On Distinctions That Congress Never Made and Makes No Sense

A prime objection to Costco's argument is that it leaves § 602(a)(1) with virtually no role to play: notwithstanding what looks like a powerful tool against importation of copies into the U.S. for sale without the copyright owner's permission, the "lawfully made under this title" clause in § 109 is so broadly construed that the owner of the U.S. copyright cannot block the importation of any copies licensed by the U.S. copyright owner for manufacture and use abroad, no matter how tightly its contracts and licenses are drawn. If a publisher creates a textbook in the U.S. and then licenses a publisher in India to publish the book for Indian students as well (with covenants not to export such copies to the United States), then § 602(a)(1) is out of play, and the U.S. copyright owner necessarily takes the risk that tens of thousands of copies made in India for that market will be diverted back into the United States. And that is so, Costco insists, even though the history underlying § 602(a)(1) makes plain beyond dispute that Congress made infringing the importation of not only piratical but also licensed copies.

Costco initially contended that the first sale doctrine applied so long as the U.S. copyright owner itself made the copies abroad (a position that was tailor-made to win this case, because the watches at issue were in fact made by the respondent). Petition

at 13-14. Recognizing the unlikelihood that Congress would have drawn such a line (and the clear evidence that it didn't), however, Costco has now changed course. What Congress meant by § 109's phrase "lawfully made under this title," Costco now says, is that copies licensed to be made and used abroad are not "lawfully made under this title" for purposes of § 109 (and therefore infringing under § 602(a)(1)) if they are licensed by an "unrelated foreign copyright holder." Conversely, Costco says, copies *are* "lawfully made under this title" under § 109 (and therefore not barred by § 602(a)) if they are made under license from the U.S. copyright owner or any "related foreign copyright holder." *See* Costco Br. 39-40.

Under Costco's newly minted position, Congress aimed in § 602(a)(1) to protect copyright owners' U.S. market not from damaging importation generally, but only from importation of copies created under certain arrangements – where the foreign authorization resulted from an assignment, rather than a license. The goal was (under that view) not to allow international market segmentation, but only segmentation accomplished through assignments rather than licenses. Under Costco's argument, if a U.S. copyright owner (author or publisher) licenses rights to both U.S. and U.K publishers for sale only in each area respectively, it necessarily exposes its U.S. market to imported copies made in the U.K. notwithstanding § 602(a)(1) or any contractual covenants insisted on. If, however, aware of that risk, the owner of the U.S. copyright assigned the

U.K. rights in his work to an "unrelated" party, then apparently copies made abroad by that entity or under its license would be excludable and infringing under § 602(a)(1).

We say "apparently" because Costco is very unclear about what it means by "unrelated." It never says. Perhaps it is suggesting that a U.S. copyright owner can avert the risk of importation by assigning foreign rights, but not preclude licensing them. Perhaps even an assignee may be "related" depending on corporate structure of overlapping boards of directors or shareholders, or personal or familial relationships, or the number or nature of the transfers between the creator and the foreign publisher. Certainly years of litigation would be required to flesh out the concept at the heart of this creative suggestion.

But whatever Costco's distinction would mean in practice, nothing in the text of the Copyright Act, including § 602 and § 109, supports that reading, or suggests that Congress drew any such lines. The history of the discussions and negotiation that led to the text of the importation right in § 602 can be searched in vain for anything suggesting that Congress had any such scheme in mind.

As Omega correctly observes in Point II of its brief, Costco's construction is belied by key provisions and concepts underlying the Copyright Act; makes substantive rights turn on meaningless formalities; and eliminates the proposed policy basis

for Costco's proposed construction of § 109(a). Omega Br. 37-39. It is hard to imagine that Congress chose to make the effectiveness of the § 602 right to prevent importation of copies not intended for the U.S. market turn on whether the U.S. and foreign law copyrights to a work were owned by "related" or "unrelated" entities.

Nor, to put it mildly, is there any reason to think that Congress wanted to pressure owners of U.S. copyrights, such as authors or publishers, to have to alienate their foreign copyrights in order to enjoy the security for exclusive rights embodied in § 602. Costco's argument is contrary to one of the central thrusts of the 1976 Act, which was to establish the equivalence of transferring ownership of exclusive rights with granting exclusive licenses. *See, e.g.*, 17 U.S.C. § 201(d)(2) and § 203(a).

Moreover, since Costco effectively concedes that the initial owner of the U.S. copyright can always avert the impact of § 109, and enjoy the protection of § 602(a)(1), by structuring its affairs so that copies made abroad for use abroad are published by "unrelated" entities, Costco's new understanding of § 109 would, in the end, simply increase transaction costs and uncertainty without expanding the reach of the first sale doctrine. There is no evidence whatsoever that Congress meant to extend the first sale doctrine to foreign copies on so arbitrary a basis, and one that could be so routinely gotten around by alert parties willing to restructure their operations and pay the necessary transaction costs.

CONCLUSION

For the foregoing reasons, the decision below should be affirmed because only that would carry out Congress' clear and very deliberate intent to make infringing the unauthorized importation of copies made under foreign law. If there are distinctions to be made between the core copyright purposes addressed here by publishers and the deliberate intent of Congress, on the one hand, and the circumstances in which copyright was invoked by Omega here on the other, that must be left to Congress.

Respectfully submitted,

CHARLES S. SIMS,
Counsel of Record
SARAH REISMAN
AIMEE TAUB BANDLER
PROSKAUER ROSE LLP
1585 Broadway
New York, New York 10036
(212) 969-3000

JON A. BAUMGARTEN
PROSKAUER ROSE LLP
1001 Pennsylvania Avenue
Suite 400 South
Washington, D.C. 20004
(202) 416-6800

Counsel for *Amicus Curiae*

AMICUS CURIAE BRIEF

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IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF OF AMERICAN WATCH ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

RONALD G. DOVE, JR.
Counsel of Record
HOPE HAMILTON
MICHAEL M. MAYA
COVINGTON & BURLING LLP
1201 Pennsylvania Ave, NW
Washington, DC 20004
(202) 662-5685
rdove@cov.com

September 7, 2010 — *Counsel for Amicus Curiae*

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INTEREST OF AMICUS CURIAE

This *amicus curiae* brief is submitted on behalf of the American Watch Association ("AWA"), in support of Respondent Omega, S.A.[1] AWA is a trade association that for over half a century has represented the interests of the watch industry in the United States. AWA's more than 90 member brands and companies manufacture, import, and sell watches, watch movements, and other watch and jewelry products bearing thousands of copyrighted designs. The watch industry is an important factor in the nation's economy, supporting tens of thousands of jobs with annual sales in excess of several billion dollars. The value of the copyrights held by AWA members would be diminished if this Court were to expand the application of the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), to goods made and sold abroad. In particular, AWA is concerned with maintaining the benefits and protections of copyright in creating and distributing watch designs and with the negative effects of gray market goods on AWA members and consumers.

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[1] Letters from both parties indicating consent to file this *amicus curiae* brief have been submitted to the Clerk. Pursuant to Rule 37.6, *amicus curiae* states that no counsel for either of the parties authored this brief in whole or in part. No person or entity, other than *amicus curiae* and its members, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

In the decision below, the Ninth Circuit correctly held that the Copyright Act's first-sale doctrine does not apply to goods manufactured, sold, and intended for distribution solely outside the United States and its territories. As Respondent demonstrates, the Ninth Circuit's decision is supported by the language, history, and purpose of the Copyright Act, as well as by this Court's precedent. For the reasons discussed in this submission, the Ninth Circuit's decision also represents sound policy.

AWA and its members are particularly attuned to the policy implications of the issues raised by this case. Copyright protection for watch and jewelry designs is vital to the United States watch industry and to the tens of thousands of jobs supported by that industry. The design, advertising, marketing, and promotion of watch products all require significant investments, which watch manufacturers seek to protect through intellectual property rights. Copyright protection is an important component of these rights, motivating artists, designers and craftsmen to continue to produce a wide variety of creative and original watch designs.

Extending the Copyright Act's first-sale doctrine to permit the unauthorized importation of goods made, sold, and intended solely for distribution abroad would undermine the value of U.S. copyrights, including those held by AWA members, harming copyright owners and consumers. First, such "gray market" imports "free ride" off the

recognition and goodwill generated by a copyright owner's investment in its copyrighted work; it is this work—paid for and produced by the copyright owner alone—that creates and maintains a market for the product. Second, consumer dissatisfaction arising from gray market imports intended for sale abroad—which can differ in design, quality, intended usage, warranty coverage, and more—further diminishes the value of U.S. copyrights. Finally, gray market imports undermine a copyright owner's right to control the manner and scope of the distribution of his work (and, thus, the attendant economic benefits) as guaranteed by the Copyright Act. *See* 17 U.S.C. § 106(3).

In the decision below, the Ninth Circuit correctly recognized that *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), did not require an extension of the first-sale doctrine to goods made and sold abroad. *Quality King*, while addressing only goods that were manufactured in the United States, supports the Ninth Circuit's holding that goods made and sold abroad are not, without more, "lawfully made under" the Copyright Act, as required by the first-sale doctrine. *See* 17 U.S.C. § 109(a). As the Ninth Circuit correctly observed, to hold otherwise would impermissibly "ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States." *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988 (9th Cir. 2008).

ARGUMENT

I. COPYRIGHT PROTECTION FOSTERS CREATIVITY AND IS VITAL TO THE UNITED STATES WATCH INDUSTRY.

The United States watch industry relies heavily on copyrights to protect original watch and jewelry designs. These designs take many forms, from artwork applied to the face or strap of the watch, to the creative selection and arrangement of elements on the watch, to original designs of varying sizes engraved on the watch. Thousands of new watch designs are created by AWA members each year, with numerous designs being registered with the United States Copyright Office. The Swatch Group, Ltd., for example, maintains hundreds of copyright registrations for individual watch designs. *See* U.S. Copyright Office, Public Catalog, *available at* http://cocatalog.loc.gov/ (search by "Name"; then enter "Swatch"); *see also* Official Swatch e-store web site, http://store.swatch.com/collectibles (last accessed Sept. 3, 2010) (depicting wide variety of watch design artwork). Fossil, Inc., as just another example, has registered dozens of copyrighted designs. *See* U.S. Copyright Office, *supra* (search by "Name"; then enter "Fossil").[2]

Watch and other jewelry designs are considered "pictorial, graphic, and sculptural works"

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[2] Because registration is not required for copyright protection, *see* 17 U.S.C. § 408(a), many AWA members choose not to register their copyrightable designs unless necessary for litigation or other purposes.

protected under Section 102(a)(5) of the Copyright Act, provided those works are "original." *See* 17 U.S.C. § 102(a)(5); *see also* U.S. Copyright Office, Circular 40, Copyright Registration for Works of the Visual Arts (2009), *available at* http://www.copyright.gov/circs/circ40.pdf (listing "jewelry designs" among examples of "two- and three-dimensional works of fine, graphic, and applied art" protected by copyright). As this Court has explained, "[o]riginal, as the term is used in copyright, means only that the work was independently created by the author . . . and that it possesses some minimal degree of creativity." *Feist Publ'ns, Inc. v. Rural Tel. Svc. Co.*, 499 U.S. 340, 345 (1991). "To be sure, the requisite level of creativity is extremely low; even a slight amount will suffice." *Id.*

Petitioner makes reference to the small size of the particular Omega design at issue here. *See* Br. Pet. 9-10. While watch designs come in all shapes and sizes, the Copyright Act contains no requirement that a work be of a certain size, whether in absolute terms or in relation to a product to which it is affixed. The range of pictorial and graphic compositions entitled to protection under the Act is vast, and the "limited pretensions" of a particular work are no bar to the work's copyrightability. *See Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 250 (1903); *see also, e.g., Kaeser & Blair, Inc. v. Merchants Ass'n*, 64 F.2d 575, 577 (6th Cir. 1933) (holding maker of stationery "could copyright a set of original symbols or designs which it uses as a means of effecting the sale of its product").

Recognizing these principles, lower courts have repeatedly found that watch designs of all

types—from a watch's overall appearance to a small artistic element on its face or band—deserve copyright protection. *See, e.g.*, *Severin Montres, Ltd. v. Yidah Watch Co.*, 997 F. Supp. 1262, 1265 (C.D. Cal. 1997) (finding protectible watch's "frame around the face" and "bracelet and clasp arrangement"), *aff'd*, 165 F.3d 917 (9th Cir. 1998) (Table); *Direct Mktg. of Va., Inc. v. E. Mishan & Sons, Inc.*, 753 F. Supp. 100, 104 (S.D.N.Y. 1990) (finding protectible watch face featuring "Tabby" cat "in a sitting position facing to the left with a stylized rather than realistic rendering of a mouse"). Indeed, as in this case, alleged infringers of copyrighted watch designs often have declined to contest the copyrightability of such designs. *See, e.g.*, *Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245, 1253 (S.D. Fla. 2006); *R&R Recreation Prods., Inc. v. Joan Cook Inc.*, No. 91 Civ. 2589, 1992 WL 88171 (S.D.N.Y. Apr. 14, 1992).[3]

Copyright protection is vital to the watch industry because it provides a powerful incentive for the continued creation of new works that strengthen brand identity and value and promote consumer satisfaction. *See Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and

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[3] *Amici* Retail Industry Leaders Association, et al. assert that it is "too easy" to obtain copyright protection for product labels and package designs, and that as a result, Respondent has "improperly leveraged" its copyright in the design affixed to the watches at issue herein. *See* Br. Retail Industry Leaders Ass'n, et al. 34. The question of the level of originality required to warrant copyright protection, however, is not before the Court in this case, and in any event, *amici*'s argument should be addressed to Congress, not this Court.

copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'" (quoting U.S. Const. art. I, § 8, cl. 8)). There would be little motivation to develop new designs if those designs could be immediately copied and marketed by others. *See Eldred v. Ashcroft*, 537 U.S. 186, 212 n.18 (2003) (noting "copyright law *celebrates* the profit motive, recognizing that the incentive to profit from the exploitation of copyrights will redound to the public benefit" (emphasis in original; internal quotation and citation omitted)).

Copyrights are also an essential tool for watchmakers who seek to protect themselves and their customers against counterfeit and gray market goods.[4] To combat gray market sales, AWA members have, among other things, implemented extensive internal corporate guidelines, refined distribution contracts with authorized sellers to account for overstock and resale procedures, and employed tracking software and other tracking tools to determine the source of gray market products. Notwithstanding these measures, the gray market persists, and thus AWA members must rely on the rights afforded them under the Copyright Act.[5]

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[4] "Gray market" goods are defined as goods that are intended for sale in a foreign market but are diverted for sale in this country through unauthorized channels of distribution.

[5] Although manufacturers sometimes may be able to use the trademark laws to curtail the unauthorized distribution of gray market products, those laws have different requirements and purposes than copyright law. *See KP Permanent Make-Up,* (...continued)

II. THE GRAY MARKET UNDERMINES THE COPYRIGHT OWNER'S EXCLUSIVE RIGHT TO DISTRIBUTE THE COPYRIGHTED WORK IN THE UNITED STATES, HARMING BUSINESSES AND CONSUMERS.

In the decision under review, the Ninth Circuit correctly recognized that the gray market diminishes the value of a copyrighted work by interfering with the copyright owner's exclusive right to domestic distribution. Such interference directly and adversely affects both businesses and consumers.

Section 106 of the Copyright Act confers a bundle of exclusive rights on the owner of a copyright. These rights are "intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony*

Inc. v. Lasting Impression I, Inc., 543 U.S. 111, 118 (2004) (noting trademark plaintiff has "a burden of proving likelihood of confusion"); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989) (noting law of unfair competition, of which trademark is a part, "has its roots in the common law tort of deceit: its general concern is with protecting *consumers* from confusion as to source" (emphasis in original)). Moreover, under the Lanham Act, a manufacturer generally cannot prevent the importation of gray market goods unless they are materially different from goods authorized for domestic distribution. *See, e.g., Am. Circuit Breaker Corp. v. Oregon Breakers Inc.*, 406 F.3d 577, 585 (9th Cir. 2005); *Iberia Foods Corp. v. Romero*, 150 F.3d 298, 306 (3d Cir. 1998).

Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1985).

Among the exclusive rights granted to a copyright owner is the right to "distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3). This right encourages artistic creativity that ultimately redounds to the public benefit by ensuring that the author of a copyrighted work can distribute the work to the public and thus "secure a fair return" for his or her labors. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). By making this right exclusive, the statute recognizes that an author cannot secure a fair return if he or she cannot control the scope and manner of distribution.

A U.S. copyright owner's ability to secure a fair return and a consumer's ability to benefit from the end product—be it in the form of a watch, book, audio recording, or painting—is substantially undermined by the gray market in three principal ways.

First, the gray market allows unauthorized distributors to "free ride" off the investment of the U.S. copyright owner.[6] Businesses make significant

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[6] *See* Richard A. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 Colum. L. Rev. 282, 285 (1975); *see also CIT Judicial Conference Examines Grey Goods Issue*, 31 Pat. Trademark & Copyright J. (BNA) No. 755, at 36 (Nov. 14, 1985) (reporting position of International Trade Commission that "grey market goods get a (...continued)

investments in product design, services, and promotion to establish brand recognition and to develop consumer markets.[7] Indeed, it is frequently the product's copyrighted design or packaging that makes it recognizable or appealing to consumers. *See, e.g.*, *Johnson & Johnson Inc. v. Aini*, 540 F. Supp. 2d 374, 386 (E.D.N.Y. 2008) (differences in product packaging between authorized and gray market goods "significant" to consumers); *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1381 (C.D. Cal. 1993) (copyrighted package design "an important part" of product's overall marketing scheme). The value of a copyright is diminished by gray market "free riders" who use the product recognition and appeal that has been created in the work to take sales away from copyright owners and authorized distributors. Without the work's copyrighted elements, there would be no "market" for gray goods because gray marketers do not themselves engage in design, advertising, or marketing for the goods they sell and instead make their profits by relying wholly on efforts made by others.

A gray market for a product can develop regardless of whether United States prices are

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'free ride' on the reputation enjoyed by the [trade]mark owner as a result of efforts undertaken by its U.S. owner").

[7] For example, over $250 million was spent on watch advertising in the United States last year alone. Joe Thompson, *2009 Watch Advertising Down 34%*, WatchTime, June 2010, at 30.

higher, lower, or equal to foreign prices.[8] It is not a function of "price discrimination," as *amici* Retail Industry Leaders Association, et al. repeatedly assert. *See, e.g.*, Br. Retail Industry Leaders Ass'n, et al. 34. All that is necessary for a gray market to flourish is that the value added to the United States product by the United States copyright owner be greater than the shipping costs to the United States. *See CIT Judicial Conference Examines Gray Goods Issues*, *supra* note 6 (noting position of International Trade Commission that "monopolistic price discrimination rarely exists and ignores demand").

Second, the gray market can diminish the value of intellectual property rights through its deleterious effect on United States consumers due to differences in quality and integrity between

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[8] Gray market distributors do not always pass along their "free-riding" profits to United States consumers. Like other economic actors, gray market importers charge what the market will bear, and it is not unusual to find gray market goods priced at or above the prices charged for authorized products, yielding direct returns for gray market importers at the expense of copyright owners and consumers. *See, e.g.*, Yongmin Chen & Keith E. Maskus, *Vertical Pricing and Parallel Imports*, 14 J. Int'l Trade & Econ. Dev. 1, 3 (2005) (noting that vertical wholesale pricing structures can enable gray market distributors to sell product profitably in another country (at or above retail price), even when the retail price in the other country is lower than in the originating country); *see also In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823, 826 (I.T.C. 1984) (gray market batteries sold "at the same retail price" as domestic batteries), *disapproved on other grounds*, 225 U.S.P.Q. 862 (1985); Maryellen Gordon, *Gray Market Is Giving Hair-Product Makers Gray Hair*, N.Y. Times, July 13, 1997, § 1, at 28 (price survey revealed that gray market products frequently are more expensive than their authorized counterparts).

authorized and gray market goods. A copyright owner who creates an appealing, original product design, and then invests in marketing and promotional efforts that feature the copyrighted work, has wasted its efforts if consumers are ultimately harmed or disappointed due to their purchase of a gray market product.

The consumer dissatisfaction arises because gray market goods are designed to conform to the laws, standards, and consumer preferences of the foreign countries in which they are intended to be sold. For example, gray market goods may have different additives, ingredients, or chemical compositions, *see R.J. Reynolds Tobacco Co. v. Cigarettes Cheaper*, 462 F.3d 690, 700 (7th Cir. 2006) (additives in cigarettes); *Johnson & Johnson*, 540 F. Supp. 2d at 385-86 (ingredients in skin/beauty products); *Helene Curtis v. Nat'l Wholesale Liquidators, Inc.*, 890 F. Supp. 152, 155 (E.D.N.Y. 1995) (same); documentation or operating instructions may be in a foreign language, *see Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 73 (2d Cir. 1987); *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984); and goods may be customized for foreign markets based on consumer preferences, expectations, or needs, *see Lever Bros. Co. v. United States*, 877 F.2d 101, 103 (D.C. Cir. 1989) (detergents formulated to perform under foreign water conditions); *Pearson Educ., Inc. v. Liu*, 656 F. Supp. 2d 407, 408 (S.D.N.Y. 2009) (foreign edition textbooks printed on "thinner paper," with "fewer ink colors, and lower-quality photographs and graphics," and not bundled with "academic supplements such

as CD-ROMs"), *appeal filed*, No. 10-894 (2d. Cir.); *Yamaha Corp. of Am. v. United States*, 745 F. Supp. 730, 730-31 (D.D.C. 1990) (foreign electronic products operated on different voltages than products intended for sale in United States), *aff'd*, 961 F.2d 245 (D.C. Cir. 1992).

Even if a gray market good is physically identical to its authorized counterpart at the time of manufacture, it can be damaged or altered at the point of sale because of poor shipment and handling or because of deterioration en route.[9] For example, U.S. law requires that watches bear certain internal markings to be imported legally into the United States. *See* 19 C.F.R. § 11.9. Watches manufactured abroad may lack the required markings. Gray market importers therefore must open and mark the watches themselves, often in uncontrolled and unsterilized environments, thereby increasing the risk of defective performance. *See Legislation to Amend the Lanham Trademark Act Regarding Gray Goods: Hearing Before the Subcomm. on Patents, Copyrights and Trademarks*, 101st Cong. 192 (1990) (responses to supplemental questions, Christopher

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[9] Gray market goods often are not subjected to quality control measures applicable to domestic goods. *See, e.g., Societe des Produits Nestle, S.A. v. Case Helvetica, Inc.*, 982 F.2d 633, 642 (1st Cir. 1992); *Bayer Corp. v. Custom Sch. Frames, LLC*, 259 F. Supp. 2d 503, 508-09 (E.D. La. 2003); *Philip Morris, Inc. v. Allen Distribs., Inc.*, 48 F. Supp. 2d 844, 853 (S.D. Ind. 1999). Moreover, gray market importers have little incentive to make investments to improve product quality where gains are based solely on taking advantage of existing product goodwill. *See supra* pp. 9-11 (discussing "free riding").

Edley, Jr., President, Coalition to Preserve the Integrity of American Trademarks).

Consumer dissatisfaction is further compounded by the fact that gray market merchandise is virtually never covered by the manufacturer's warranty for domestic goods. *See, e.g.*, *Swatch S.A. v. New City, Inc.*, 454 F. Supp. 2d 1245, 1250-51 (S.D. Fla. 2006); *Yamaha Corp. of Am.*, 745 F. Supp. at 731. Finally, because gray market goods are, by definition, sold outside authorized channels of distribution, it can be difficult for a manufacturer or a government agency to determine how to implement quality control measures (such as removing stale or expired products from store shelves), recalls, or other safety notices. *See, e.g.*, *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 244-45 (2d Cir. 2009); *R.J. Reynolds*, 462 F.3d at 700; *John Paul Mitchell Sys. v. Pete-n-Larry's, Inc.*, 862 F. Supp. 1020, 1026 (W.D.N.Y. 1994).

Despite the significant differences that can exist between authorized and gray market goods, consumers are almost never advised that they are purchasing or receiving goods not intended for sale in this country. Indeed, as the instant case demonstrates, it is not unusual for these goods to appear side-by-side on a shelf with authorized goods. Therefore, a consumer deceived, injured, or dissatisfied with a gray market purchase is unlikely to "try again" and buy an authorized product. The end result is that a copyright owner who has invested substantial time and money in creating an

innovative product will not receive the repeat sales that the investment otherwise may have generated.[10]

Finally, the gray market devalues a copyright associated with an unauthorized import by depriving the copyright owner of the opportunity to control the manner and scope of distribution of the copyrighted work. An author of a work may well determine that the best way to profit from his or her creative endeavor is to make it available only through select distributors or in a limited quantity. Section 106(3) makes this decision the prerogative of the copyright owner. Although copyright law is intended to allow public enjoyment of these works over time, there is no requirement that distribution be widespread during the author's limited period of exclusive control.[11]

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[10] In the case of gray market watches and luxury goods, confusion and attendant harm persists even after the initial purchase, as such items are often purchased as gifts or resold. *Cf. Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp. 2d 231, 243 (D. Mass. 2001) ("Individuals who receive the altered [gray market] pens as gifts or who see the pens being used by actual purchasers may be unimpressed by the quality of Montblanc products and consequently decide not to purchase genuine unaltered Montblanc products."), *vacated pursuant to settlement*, 175 F. Supp. 2d 95 (D. Mass. 2001).

[11] Nor does any other area of law prevent a copyright owner from limiting distribution to certain retailers. *See, e.g., Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 901-03 (2007) (reaffirming principle from *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 59 (1977) that placing limitations on distributors permitted to sell manufacturer's products is not "per se" unlawful under Sherman Act); *R.J. Reynolds*, 462 F.3d at 695 (rejecting gray marketer's price discrimination theory as a basis for alleged antitrust injury).

Gray marketers undermine this exclusive control by importing copies of works not intended for domestic distribution and, most commonly, by selling the unauthorized imports in mass-merchandise "discount" stores. As supply increases, the price that the copyright owner can obtain for the copyrighted work will decrease. Most likely, demand also will be affected by a drop in the work's quality, integrity, level of safety, or prestige as a result of availability through channels of distribution that have lower standards of quality and supervision or may otherwise be undesirable. This will further drive down the price of the works intended for domestic distribution.

The economic impact of the gray market is substantial and growing. For example, a 2008 KPMG study of information technology manufacturers concluded that nearly $60 billion was lost annually to gray market sales in that industry alone, with an average of seven percent total revenue lost to the gray market. KPMG LLP, KPMG Gray Market Study Update 30 (2008), *available at* http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/Effective-channel-management-gray-market.pdf. These figures represented a 45 percent increase in the impact of the gray market from an earlier KPMG study conducted in 2002. *Id.* It has been estimated that gray market sales constitute as much as 20 to 50 percent of sales in other industries. Kersi D. Antia, *Competing with Gray Markets*, USC Marshall Research - Marketing Monograph Series, at 1 (Fall 2004); Chen & Maskus, *supra* note 8, at 1-2.

The United States retail watch industry—which generates billions of dollars of sales annually and supports tens of thousands of workers—is similarly impacted by the gray market.[12] In light of the importance placed by the industry on copyright protection for innovative watch designs, *see* Section I, *supra*, the gray market's negative effect on the value of copyrights jeopardizes both the strength of the industry and the jobs it supports.

III. THE NINTH CIRCUIT CORRECTLY HELD THAT THE COPYRIGHT ACT'S FIRST-SALE DOCTRINE DOES NOT APPLY TO GOODS MADE AND SOLD ABROAD.

The issue in this case is whether the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), applies to goods manufactured, sold, and authorized for distribution solely outside the United States and its territories. The Ninth Circuit correctly held, consistent with this Court's precedent, that the doctrine is not applicable to such goods.

The Ninth Circuit's opinion was framed by this Court's decision in *Quality King Distribs., Inc. v.*

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[12] U.S. watch imports in 2009 were valued at $3.1 billion. Federation of the Swiss Watch Industry FH, The Swiss and World Watchmaking Industry in 2009, at 4 (2010), *available at* http://www.fhs.ch/statistics/watchmaking_2009.pdf. In 2005, the watch industry supported approximately 26,000 jobs in the United States. *See* AWA, Pre-Hearing Statement Regarding Petitions of Timex Corp. and Gov't of Philippines to Extend Duty-Free Treatment to Selected Imports of Watches, GSP Subcommittee, Office of the U.S. Trade Representative, at 3 (Sept. 22, 2005).

L'Anza Research Int'l, Inc., 523 U.S. 135 (1998). *Quality King* dealt with hair care products to which the products' manufacturer affixed copyrighted labels. *See id.* at 138. The products were made in the United States, sold to foreign distributors, and then re-imported into the United States without the manufacturer's authorization. *See id.* at 138-39.

Rejecting the manufacturer's argument that application of the first-sale doctrine to products sold abroad would render "superfluous" the prohibition against unauthorized importation of copyrighted goods provided by 17 U.S.C. § 602(a), *see Quality King*, 523 U.S. at 148-49, the Court reversed the judgment below in favor of the manufacturer, *id.* at 154. The Court did not consider, however, whether the same outcome would have obtained had the goods at issue been manufactured abroad. Justice Ginsburg, in a concurring opinion, expressly noted this limitation on the Court's decision. *See id.* (Ginsburg, J., concurring) ("I join the Court's opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.").

In the decision under review, the Ninth Circuit concluded that Circuit precedent holding the first-sale doctrine inapplicable to goods both manufactured and sold abroad was not "clearly irreconcilable" with *Quality King*. *See Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008). That precedent maintained that "sales abroad of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under [17 U.S.C.] §§ 106 and 602(a)."

Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 482 n.8 (9th Cir. 1994) (emphasis omitted); *see also BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991).

In determining that *Quality King* did not upset this rule, the Ninth Circuit focused on the "presumption against extraterritoriality," which holds that "a U.S. statute 'appl[ies] only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute.'" *Omega*, 541 F.3d at 987-88 (quoting Restatement (Second) of Foreign Relations Law of the United States § 38 (1965)) (alterations in original). The court correctly reasoned that "the application of § 109(a) [the first-sale doctrine] to foreign-made copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not." *Id.* at 988. In particular, the former application would require characterizing copies made overseas as "'lawful[ ] . . . under [Title 17]" of the United States Code. *Id.* (quoting 17 U.S.C. § 109(a)) (alterations in original). This characterization would impermissibly "ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States." *Id.* *Quality King*, the Ninth Circuit correctly observed, did not require such a result, and indeed, counseled against it. *See id.* at 989.

Support for a refusal to extend the first-sale doctrine to goods made and sold abroad is most clear in the *Quality King* Court's discussion of the separate publishers of United States and British editions of a copyrighted book. The Court explained:

> If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those [copies] made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

Quality King, 523 U.S. at 148. As long as the British edition is manufactured outside the United States—a logical inference given the Court's distinction between the publishers of the two editions—the Court's discussion suggests that goods made and sold abroad cannot be "lawfully made under this title" and thus cannot fall within the first-sale doctrine.

This limitation on the first-sale doctrine comports fully with the justification for the doctrine. That justification, identified by the Court over 100 years ago, is based on the proposition that when a copyright owner exercises its "right to vend" a copyrighted work "in quantities and at a price satisfactory to it," it generally receives the full value of the rights guaranteed to it under the copyright laws. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339,

351 (1908). To allow the copyright owner to "control all future retail sales" would be to provide the owner with a right neither "included in the terms of the statute" nor necessary to promote the goals of copyright law. *See id.* Where a copyright owner makes and sells goods abroad, however, it does not exercise any rights under the Copyright Act. As a result, the first sale of such goods does not compensate the copyright owner for the value of its United States copyright, and thus, there is no justification for cutting off the copyright owner's rights.

In addition to finding support in this Court's precedent, the Ninth Circuit's holding also correctly recognizes that goods that are both made and sold abroad are fundamentally different from goods—like those at issue in *Quality King*—that are made in the United States, sold abroad, and then re-imported into the United States. Whereas goods that are made and sold abroad have had no connection to the United States at the time of their first sale, goods that were manufactured domestically have already had contact with this country when they are first sold. Consequently, as the Ninth Circuit observed, extension of the first-sale doctrine to foreign-made goods would apply the Copyright Act extraterritorially in a way that *Quality King* did not. *See Omega*, 541 F.3d at 988.

Petitioner argues that the Copyright Act is only impermissibly given extraterritorial effect when infringing actions occur outside the United States. *See* Br. Pet. 29. Under this interpretation, however, the presumption against extraterritoriality would function only to the benefit of an alleged infringer,

and never to the benefit of a copyright owner. Neither Petitioner nor its *amici* have offered any persuasive explanation for this asymmetry. If it is improper to impose liability under the Copyright Act on the basis of actions that take place abroad, so too must it be improper to "ascribe legality under the [ ] Act," *see Omega*, 541 F.3d at 988, to such actions.

Petitioner's policy arguments are similarly unpersuasive. For example, Petitioner asserts that the Ninth Circuit's decision distorts incentives for downstream retailers, who according to Petitioner would be loath to distribute even authorized goods "given the practical difficulties in assuring the provenance of imported goods." *See* Br. Pet. 50. But a retailer unsure of a copyrighted work's provenance is free to contact the copyright owner or manufacturer for confirmation or to seek indemnification from its suppliers, *see* U.C.C. § 2-312(3)[13]; there would be no need for it to cease legitimate operations. Petitioner's concern with the erosion of billions of dollars of gray market sales in the United States and associated tax revenues, *see* Br. Pet. 46, is similarly misplaced, as many of those sales would be replaced by sales of authorized products.

Petitioner further argues that the Ninth Circuit's decision creates "perverse incentives for

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[13] This section provides, in relevant part: "Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like."

U.S. copyright owners to produce their copyrighted works outside the United States." *See* Br. Pet. 48. The Ninth Circuit, however, merely re-affirmed a limitation on the first-sale doctrine that has been recognized by lower courts for decades. *See, e.g.*, *Hearst Corp. v. Stark*, 639 F. Supp. 970, 977 (N.D. Cal. 1986); *Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49-50 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984) (table). AWA, for example, is not aware of any member that has shifted manufacturing operations outside the United States to take advantage of this rule. The "perverse incentives" Petitioner fears simply have not materialized.

CONCLUSION

For the foregoing reasons and those set forth in the brief for Respondent, this Court should affirm the decision below.

Respectfully submitted,

RONALD G. DOVE, JR.
Counsel of Record
HOPE HAMILTON
MICHAEL M. MAYA
COVINGTON & BURLING LLP
1201 Pennsylvania Ave, NW
Washington, DC 20004
(202) 662-5685
rdove@cov.com

Counsel for Amicus Curiae

AMICUS CURIAE BRIEF

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In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF BUSINESS SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Amicus Curiae

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BRIEF OF BUSINESS SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

INTEREST OF THE *AMICUS CURIAE*

The Business Software Alliance (BSA) is an association of the world's leading software and hardware technology companies. On behalf of its members, BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members rely on copyright protection to establish property rights in their critical assets and provide essential legal protection for their substantial investments in those assets. As a group they hold a significant number of copyrights. Because copyright policy is vitally important to promoting the innovation that has kept the United States at the forefront of software development, BSA members have a strong stake in the proper functioning of the U.S. copyright system.

The members of the BSA are Adobe, Apple, Autodesk, Bentley Systems, CA, Cadence Design Systems, Cisco Systems, Corel, CyberLink, Dell, Embarcadero Technologies, HP, IBM, Intel, Intuit, McAfee, Microsoft, Minitab, Quark, Quest Software, Rosetta Stone, SAP, Siemens, SolidWorks, Sybase, Symantec, Synopsys, and The MathWorks.[1]

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[1] Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part and that no person other than *amicus* and its counsel made a monetary contribution to its preparation or submission. The parties' letters consenting to the filing of this brief have been filed with the Clerk's office.

SUMMARY OF ARGUMENT

In arguing that the first sale doctrine codified in 17 U.S.C. § 109(a) overrides the importation right set forth in 17 U.S.C. § 602(a), petitioner and its *amici* assert that as a general matter the Copyright Act should be construed to promote secondary markets in protected works, that the plain language of the statute supports their position regarding the applicability of the first sale doctrine, and that their interpretation is necessary to prevent the inappropriate expansion of copyright protections. Each of these contentions is wrong.

First, the fundamental purpose of the Copyright Act is to implement the Constitution's mandate to promote creative works by securing to authors control over their works for limited time periods. The Act grants copyright holders specified exclusive rights, such as the rights to distribute, import, copy, and perform their works. Consumers in turn are entitled to certain rights in copyrighted works that they lawfully acquire. The Act thus is a carefully-crafted compromise that balances the rights of copyright holders, consumers, and other stakeholders.

Nothing in the Act's language or history—or in this Court's decisions—supports adoption of an interpretive principle favoring secondary markets in protected works over authors' exclusive rights. The practical consequence of such a rule would be to *dis*favor authors' exclusive rights, a result that makes no sense because those exclusive rights are the means by which Congress implemented the Act's, and the Constitution's, basic purpose of promoting "the Progress of Science and useful Arts." This Court should reject the invitation to adopt such an approach.

Second, petitioner's assertion that the first sale doctrine (which creates an exception to a copyright holder's exclusive right to distribute following the first sale of that work) applies to goods that are manufactured and sold outside the United States is foreclosed by the plain language of the statute. As codified in Section 109(a), the doctrine applies only to copyrighted works "made under [the Copyright Act]." Works produced outside the United States thus cannot qualify for this statutory exception.

Indeed, this Court has already explained that Section 602(a) is "broader" than Section 109(a) "because it encompasses copies that are not subject to the first sale doctrine—*e.g.*, copies that are lawfully made under the law of another country." *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135, 148 (1998).

And, although recourse to policy is neither necessary nor appropriate given the clarity of the statutory language, the negative policy implications of petitioner's approach would be severe. Section 602(a) permits copyright owners to charge lower prices in economically less-developed countries, reflecting the reality of the reduced financial resources of potential customers. It also allows copyright owners to include special terms and conditions (including special pricing terms), in countries with weak copyright protection or lax enforcement mechanisms. Petitioner's construction of the statute would enable a cross-border secondary market that would be harmful to all copyright owners, and would have especially adverse consequences for software creators.

Third, petitioner and its *amici* contend that their interpretation of the statute is essential to prevent product manufacturers from using trivial copy-

righted works to cloak non-copyrighted products with copyright protections. Even if true, that consequence would provide no basis for limiting the exclusive rights of software creators and others whose copyright extends to all, or the lion's share, of the product in question.

Moreover, equitable doctrines preclude the expansion of trademark rights through the improper invocation of copyright law. The resolution of the question presented here—whether Section 109 overrides the importation right in Section 602(a)—is thus separate and distinct from questions regarding the availability of Copyright Act protections in circumstances such as those presented here. The Court accordingly need not and should not narrowly construe the exclusive rights granted by the Act based on the parade of horribles conjured by petitioner. Those concerns, to the extent they are realized, can be addressed by other copyright law principles.

ARGUMENT

I. THE NINTH CIRCUIT CORRECTLY INTERPRETED THE COPYRIGHT ACT.

Petitioner and its *amici* invoke two basic arguments in advancing their substantial evisceration of the importation right granted to copyright owners by Section 602(a). First, they invent a new principle for interpreting the Copyright Act—that the statute should be construed to promote secondary markets in protected works—and contend that the new interpretive rule supersedes the plain words of Section 602(a) and thus supports their position. Second, they argue that the plain language of the relevant provisions support their preferred result.

Both arguments are wrong. This Court should refuse to elevate creation of secondary markets over the Act's fundamental goal of promoting the creation of new creative works. And it should hold that the plain language Congress used in the Copyright Act makes clear that copyright holders have the exclusive right to authorize the importation into the United States of foreign-manufactured copyrighted works.

A. The Copyright Act Strikes A Careful Balance Between Competing Interests And Does Not Specially Favor Expansive Secondary Markets In Protected Works.

Petitioner and certain of its *amici* suggest that the Copyright Act favors creation of broad secondary markets for protected works, and invoke that supposed principle in contending that the Act precludes recognition of the importation right specified in Section 602(a). That approach to interpreting the Act is plainly wrong.

The Copyright Act, like other federal statutes protecting intellectual property, embodies "a carefully crafted bargain," balancing the rights of the various stakeholders. *Dastar Corp.* v. *Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33 (2003). The Act's provisions reflect "a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand." *Sony Corp.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). See also *Stewart* v. *Abend*, 495 U.S. 207, 228 (1990) (The Copyright Act "creates a balance between the artist's right to control the

work during the term of the copyright protection and the public's need for access to creative works.").

To provide authors with necessary incentives to create new works—works that provide significant benefits to the public at large—the Copyright Act grants authors specified rights with respect to the results of their creative endeavors. "The rights conferred by copyright are designed to assure contributors to the store of knowledge a fair return for their labors." *Harper & Row Publishers, Inc.* v. *Nation Enters.*, 471 U.S. 539, 546 (1985). See also *Fox Film Corp.* v. *Doyal*, 286 U.S. 123, 127-128 (1932) ("A copyright, like a patent, is 'at once the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects'") (quoting *Kendall* v. *Winsor*, 62 U.S. (21 Howe) 322, 328 (1858)).

Thus, Section 106 of the Act confers on the copyright owner the exclusive rights of reproduction, distribution, performance, and of the creation of derivative works. And in Section 602(a), Congress granted the copyright owner exclusive importation rights.

Congress of course limited these rights in several ways, including through the "first sale" exception codified in Section 109. That doctrine provides that the "the right" of the copyright holder "'to distribute copies * * * by sale or other transfer of ownership'" "applie[s] only to the first sale of the copyrighted work." *Quality King Distribs., Inc.* v. *L'Anza Research Int'l, Inc.*, 523 U.S. 135, 141-142 (1998) (quoting 17 U.S.C. § 106(3)). By allowing a buyer to resell the work, the doctrine enables the development of a secondary market in the copyrighted work.

Of course, Congress specified that the first sale exception applies only to acts by an "owner" of a copy of a work. 17 U.S.C. § 109(a). See also *id.* § 109(d) ("privileges" of first sale doctrine do not extend to a person who has acquired possession of a copy of a work "without acquiring ownership of it") The doctrine, for example, does not attach when a copyrighted work is licensed. See, *e.g.*, *Wall Data Inc.* v. *Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 785 n.9 (9th Cir. 2006). See also 17 U.S.C. § 109(b)(1)(A) (making clear that first sale doctrine does not apply to copies of computer software obtained by rental, lease, or lending).

At bottom, the "first sale" doctrine is an *exception* to the exclusive rights that the Act grants to copyright holders. There is no basis in law or history for suggesting that Congress tilted the scales of the Copyright Act to prefer creation of broad secondary markets over vigorous protection of the exclusive rights granted to copyright owners. Such an approach would permit the exception to swallow the rule and would directly contradict the well-established principle that Congress's *main* concern was to provide a sufficient incentive for creation of new works. "[T]he Framers intended copyright itself to be the engine of free expression. By establishing a marketable right to the use of one's expression, copyright supplies the economic incentive to create and disseminate ideas." *Harper & Row*, 471 U.S. at 558.

Indeed, preferring creation of secondary markets would undermine the fundamental protections that copyright law is intended to provide. "By according authors and their assigns a proprietary entitlement, copyright fosters the development of an independent sector for the creation and dissemination of original

expression, a sector composed of creators and publishers who earn financial support for their activities by reaching paying audiences rather than by depending on state or elite largess." Neil W. Netanel, *Copyright & a Democratic Civil Society*, 106 YALE L.J. 283, 347 (1996).

Construing the Copyright Act to favor broad secondary markets would thus require the Court to find within the Act a principle *disfavoring* protection of the author's exclusive rights—a result at odds with the underlying purpose of the statute. To the extent the Act places a thumb on the policy scales, it expresses a preference for the exclusive rights granted to the author, because those rights are the means by which Congress implemented the Act's basic purpose.

In this case, however, fidelity to the plain language Congress used in the Copyright Act resolves the question presented. The relevant provisions make clear that a U.S. copyright holder has the exclusive right to authorize the importation into the United States of foreign-manufactured works that infringe the U.S. copyright.

B. Section 602(a) Grants Copyright Holders The Right To Prevent The Importation Of Copies Of Works Made And Sold Outside The United States.

Recognizing that the creator of a work may choose to sell, lease, license, or otherwise distribute that work differently depending on the particular characteristics of particular markets around the world, Congress granted U.S. copyright owners specified exclusive rights relating to the importation of a copyrighted work produced abroad.

In particular, the Copyright Act provides that when a copy of a work is made abroad, the holder of the U.S. copyright has the exclusive right under Section 602(a) to determine whether that work may be imported into the United States: "Importation into the United States, without the authority of the owner of copyright under this title, of copies * * * of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies * * * under [S]ection 106 * * *." 17 U.S.C. § 602(a)(1). Even if a foreign-produced copy is sold outside the United States, therefore, the U.S. copyright holder retains the statutory right to restrict importation of that copy into the United States.

1. Section 109(a), which codifies the "first sale" doctrine, does not override the importation right conferred by Section 602(a)(1). Under the first sale doctrine, "the owner of a particular copy * * * lawfully made under this title * * * is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a).

A work produced outside the United States cannot qualify as a copy "lawfully made under" the Copyright Act, because the Copyright Act does not apply outside the United States. *See United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260 (1908). Such a work was made beyond the reach of the U.S. copyright regime.

In *Quality King*, 523 U.S. at 147, the Court expressly found that the phrase "lawfully made under this title" used in Section 109(a) does not "encompass[] copies that were 'lawfully made' not under the United States Copyright Act, but instead under the law of some other country." The Court likewise ex-

plained that Section 602(a) is "broader" than Section 109(a) "because it encompasses copies that are not subject to the first sale doctrine—*e.g.*, copies that are lawfully made under the law of another country." *Id.* at 148.

The Court illustrated its analysis with an example: if a U.S. copyright holder sold exclusive U.S. publishing rights to one publisher, and exclusive British publishing rights to another, "only those [copies] made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of [Section] 109(a)." *Quality King*, 523 U.S. at 148. Thus "[t]he first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under [Section] 602(a)." *Ibid.*

2. Petitioner and its *amici* contend that under this view of the statute a work manufactured abroad could never qualify under the first sale doctrine because it would never be "lawfully made under this title" and thus within Section 109(a)'s ambit.

Not so. Once the U.S. copyright owner imports—or authorizes another to import—the work into the United States, the work becomes subject to the Copyright Act and any subsequent sale will trigger application of the first sale doctrine.

This interpretation accords with the exhaustion principles underlying the first sale doctrine. "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution," and thus Section 109(a) applies. *Quality King*, 523 U.S. at 152. In the context of a work produced

abroad, the U.S. copyright holder is provided the exclusive right to authorize its importation. Once that right has been exercised and the good lawfully imported and sold in the U.S. market, Section 109(a) attaches as a defense to subsequent owners of that good.

3. What petitioner and its *amici* ultimately support is not the expansion of the secondary market in the United States—to be sure, Section 109(a) already provides for such a domestic secondary market once a work is lawfully sold in the U.S. marketplace—but instead creation of a robust *international* secondary market. That result would significantly harm U.S. copyright owners.

For example, the legal framework for—and, more importantly, the practical reality of—copyright protections vary greatly around the world. Copyright owners take this factor into account in the pricing, terms, and conditions they use to distribute their copyrighted works. For example, they frequently charge lower prices in economically less developed countries because of the reduced financial resources of potential customers. And in countries with weak copyright protection or lax enforcement mechanisms, copyright holders may, depending on the product and the precise circumstances, need to add terms and conditions of the permitted uses of the work or to charge more for products (to compensate for anticipated copyright infringement) or to charge less as an accommodation to market pressures (to decrease incentives for piracy).

The ability to engage in this differentiation is especially important for software creators. With cross-border communication and collaboration ever more frequent in both business and personal interactions,

the software platforms that enable this interaction must be available throughout the world—and at prices that reflect each country's market realities. That means that software creators must be able to set prices at different levels to reflect different conditions in different markets.

Permitting unlimited arbitrage across international markets would prevent software creators and other copyright holders from making these reproduction, translation, adaptation, pricing, and other decisions based on the law and economic circumstances of the market where the work is first made available: any terms or pricing adapted to take into account the conditions of a specific market differential would be undercut by a secondary "international resale" market. That would produce a substantial inequity in the sale of copyrighted works—depriving consumers, for example, of lower prices and depriving copyright owners of the right to control the distribution of their works. See James Boyle, *Cruel, Mean or Lavish? Economic Analysis, Price Discrimination & Digital Intellectual Property*, 53 VAND. L. REV. 2007, 2021-2027 (2000) (reviewing economic justifications for market segmentation).[2]

II. EQUITABLE DOCTRINES LIMIT THE UNJUSTIFIED EXTENSION OF COPYRIGHT ACT PROTECTIONS.

Petitioner and its *amici* argue that their construction of the Copyright Act is necessary to prevent

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[2] To be sure, Omega's market segmentation strategy does not appear to rest on antipiracy or loss prevention considerations. But that may be a product of the peculiar factual context presented here, in which the copyrighted work is a minor component of the overall product.

product manufacturers from invoking copyright remedies with respect to an extremely minor "work" only tangentially related to a non-copyrighted product in order to restrict importation of that product. They justify their dramatic reinterpretation of the importation right by arguing that a manufacturer of branded goods should not be permitted to obtain relief under the Copyright Act that it would be denied under trademark law.

Even assuming that this view of the interplay between copyright and trademark law is correct, there is no warrant for this Court to reach that result by construing the Act in a manner that reduces the protection for products consisting predominately of copyrighted work—software, for example. Other aspects of copyright law preclude product manufacturers from leveraging copyright remedies in this fashion.

1. A manufacturer typically uses registered trademarks to preserve "the goodwill of [its] business" and "the ability of consumers to distinguish among competing producers." *Park 'N Fly, Inc.* v. *Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985). As this Court has long recognized, "trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation." *Ibid.* Thus "the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product." *Qualitex Co.* v. *Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995).

Trademark law thus protects a manufacturer against counterfeit goods (see, *e.g.*, 15 U.S.C. § 1116(d) and other forms of infringement that may dilute the value of the mark (see, *e.g.*, *id.* § 1114(1)).

For similar reasons, trademark law also prohibits unauthorized importation of trademarked merchandise a manufacturer distributes abroad if that merchandise "do[es] not conform to the trademark holder's quality control standards" adopted for the sale of goods in the United States or if the merchandise "differ[s] materially from the product authorized by the trademark holder for sale" in the United States. *Zino Davidoff SA* v. *CVS Corp.*, 571 F.3d 238, 243 (2d Cir. 2009). This standard safeguards the trademark holder against the marketing of authentic but unauthorized products in this country that—because of their difference from authorized products—could serve to diminish the goodwill secured by the U.S. trademark.

But trademark law does not necessarily confer on the trademark holder the ability to prohibit importation of trademarked goods. Courts have stated that "the basic question in gray market cases is not whether the mark was validly affixed to the goods, but whether there are differences between the foreign and domestic product and if so whether the differences are material." *Bourdeau Bros., Inc.* v. *U.S. Int'l Trade Comm'n*, 444 F.3d 1317, 1321 (Fed. Cir. 2006) (internal quotation marks omitted). See also 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION § 29:51.75 (4th ed. 2010) (describing "the approach followed by almost all courts: if there are material differences between the gray market imports and the authorized imports, then the gray market imports are not 'genuine' goods and can create a likelihood of confusion").

2. Although protections accorded patents, copyrights, and trademarks share similarities, this Court has been careful to police misapplication of these dis-

crete doctrines. For example, "in construing the Lanham Act," the Court has been "'careful to caution against misuse or over-extension' of trademark and related protections into areas traditionally occupied by patent or copyright." *Dastar*, 539 U.S. at 34 (quoting *TrafFix Devices, Inc.* v. *Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001).

Just as trademark principles cannot be invoked to circumvent copyright limitations, so too courts should refuse to create a copyright "supplement" to trademark rights. The differing purposes underlying trademark and copyright illustrate why this is so. As we have explained, trademarks protect the "goodwill" associated with the underlying good, such as a particular brand. *Park 'N Fly*, 469 U.S. at 198. See also pages 13-14, *supra*.

Copyrights serve a substantially different purpose. "The primary objective of copyright is * * * '[t]o promote the Progress of Science and useful Arts.'" *Feist Publ'ns, Inc.* v. *Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991) (quoting U.S. Const. Art. I, § 8, cl. 8). Copyright protection thus "reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts." *Twentieth Century Music Corp.* v. *Aiken*, 422 U.S. 151, 156 (1975).

In short, the purpose of a trademark is to protect the holder's value in the goodwill associated with its product by barring others from infringing on the mark. A copyright, on the other hand, is designed to advance creative arts by ensuring that authors have sufficient incentives (in the form of royalties) to pro-

duce new work, production which will benefit the public at large.

Controlling the distribution of its luxury-branded goods is a quintessential trademark interest. Copyright protections generally are not implicated by a manufacturer's effort to control distribution of a non-copyrighted product. Just as trademark principles cannot be invoked to circumvent copyright limitations, so too courts should refuse to create a copyright backdoor to trademark rights. "Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible." *Fogerty* v. *Fantasy, Inc.*, 510 U.S. 517, 527 (1994).

3. To the extent a manufacturer is seeking to invoke copyright law to address a trademark interest, the proper response is not to reduce copyright remedies across-the-board, and thereby adversely affect holders of copyrights in software and other works as to which all or most of the product is protected by copyright. Equitable doctrines provide substantial grounds for declining to afford copyright remedies when the claim either runs counter to the public policies informing copyright principles or when the alleged violation is *de minimis*.[3]

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[3] At oral argument in *Quality King*, one Justice asked, "it's easy to follow the arguments when you're talking about books and records and so forth, but when you're talking about the label on a product that is not itself patented or copyrighted, the label is controlling the distribution of the product, is that relevant at all in the case?" Transcript of Oral Argument at 32, *Quality King*, 523 U.S. 135 (No. 96-1470).

For example, in certain circumstances, a copyright infringement may not be actionable because the violation is simply too insignificant. "*[D]e minimis* in the copyright context can mean what it means in most legal contexts: a technical violation of a right so trivial that the law will not impose legal consequences." *Ringgold* v. *Black Entm't Television, Inc.*, 126 F.3d 70, 74 (2d Cir. 1997). That is to say "the law does not concern itself with trifles." *Ibid.* After explaining "that even where the fact of copying is conceded, no legal consequences will follow from that fact unless the copying is substantial," the Ninth Circuit concluded that a band's sampling of a small portion of a copyrighted song did not constitute an actionable violation of the Copyright Act. *Newton* v. *Diamond*, 388 F.3d 1189, 1192-1193 (9th Cir. 2004).[4]

CONCLUSION

The judgment of the Ninth Circuit should be affirmed and the case remanded for further proceedings.

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[4] BSA also notes that petitioner has asserted a copyright misuse defense against Omega's infringement claim. Because this case arises in an interlocutory posture, the lower courts have not yet considered this alternative resolution to Omega's claim. See C.A. E.R. 117-119 & n.1.

Respectfully submitted.

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES*
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

**Admitted in New York only; admission to the District of Columbia pending.*

Counsel for Amicus Curiae

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AMICUS CURIAE BRIEF

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No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION, PETITIONER

v.

OMEGA S.A., RESPONDENT

On Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit

BRIEF OF EBAY INC., GOOGLE INC., NETCOALITION, THE COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, AND THE INTERNET COMMERCE COALITION AS AMICI CURIAE IN SUPPORT OF PETITIONER

DAVID B. SALMONS
Counsel of Record
MARY T. HUSER
RAECHEL K. ANGLIN
BINGHAM MCCUTCHEN LLP
2020 K Street NW
Washington, DC 20006-1806
(202) 373-6283
david.salmons@bingham.com

Counsel for Amici Curiae

QUESTION PRESENTED

Under the Copyright Act's first sale doctrine, 17 U.S.C. § 109(a), the owner of a copy "lawfully made under this title" may resell that copy without the authority of the copyright holder. In *Quality King Distribs., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135, 138 (1998), this Court held that "the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." In the decision below, the Ninth Circuit held that *Quality King* is limited to its facts, which involved goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

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INTEREST OF THE AMICI[1]

eBay, Inc. operates the world's largest online marketplace. Founded in 1995, eBay created an online market to bring together buyers and sellers to trade in local, national, and global markets. eBay serves individual buyers and sellers, as well as businesses ranging in size from part-time proprietorships to household brand names. eBay's online platform permits secondary marketplace trade in a wide range of goods. Accordingly, eBay has an interest in ensuring that the threat of copyright infringement will not hamper the alienability of authentic goods in the secondary market.

Google, Inc. is a leading search engine and provides a wide range of services that empower millions of people around the world to find, create and communicate information. Google's products include copyright-protected software that is loaded with Google's authorization onto physical goods such as mobile telephone handsets and personal computers. Those physical goods may be manufactured outside of the territory of the United States, and lawful owners of those goods may seek to import them into the territory of the United States. Google, therefore, has an interest in establishing a clear rule for the alienability of those goods within the United States that benefits Google's consumers. Because its business is global, Google also has an interest in having

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[1] Pursuant to Supreme Court Rule 37.6, counsel for the amici curiae represent that they authored this brief in its entirety and that none of the parties or their counsel, nor any other person or entity other than the amici, their members, or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief. All parties have consented to the filing of this brief, and letters reflecting their consent have been filed with the Clerk.

clear rules regarding the applicability of United States and foreign copyright law.

NetCoalition serves as the public policy voice for some of the world's most innovative Internet companies on the key legislative and administrative proposals affecting the online world. NetCoalition provides legal and policy solutions to critical legal and technological issues facing Internet companies, the courts, and policymakers. It helps insure the integrity, usefulness, and continued expansion of this dynamic new medium. Its members include Amazon.com, Bloomberg LP, eBay, Google, IAC, Yahoo! and Wikipedia.

The Computer & Communications Industry Association (CCIA) is a non-profit trade association dedicated to "open markets, open systems and open networks." CCIA represents companies in the high technology products and services sectors, including computer hardware and software, electronic commerce, telecommunications and Internet products and services. CCIA members range in size from small entrepreneurial firms to the largest in the industry. CCIA's members use the intellectual property system regularly and depend upon it to fulfill its constitutional purpose of promoting innovation. A complete list of CCIA members is available online at <http://www.ccianet.org/members>.

The Internet Commerce Coalition (ICC) is a coalition of leading U.S. Internet Service Providers (ISPs), e-commerce companies, and technology trade associations. The ICC's mission is to achieve a legal environment that allows service providers, e-commerce companies, their customers, and other users to do business on the global Internet under reasonable rules governing liability and use of technology.

eBay, Google, NetCoalition, CCIA and ICC believe that once a consumer pays the copyright owner for a good in an authorized first sale, the purchaser should enjoy the right to freely distribute that good, irrespective of where the good was manufactured. The Ninth Circuit's strained imposition of a place of manufacturing requirement on the first sale doctrine will have a detrimental effect on e-commerce and secondary markets. The internet provides consumers with global access to information and goods, enabling innovation in international commerce. Consumers should be allowed to trade authentic goods unhindered by the threat of copyright infringement created by the Ninth Circuit's decision in this case.

SUMMARY OF ARGUMENT

The first sale doctrine has long been recognized as a defense to copyright infringement, striking a balance between the property rights of consumers and the promotion of progress in the sciences and useful arts that results from compensating copyright owners for the initial sale of the copyrighted good. This considered approach protects the alienability of goods embodying copyrighted works, enabling their resale unimpeded by the copyright owner's control. As this Court held over a century ago, "one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

Section 109(a) of the Copyright Act codifies the first sale doctrine, providing that "the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a). In *Quality King Distrib. v. L'anza Research Int'l*, 523 U.S. 135, 138, 154 (1998), this Court confirmed that the first sale doctrine is not limited by place of first sale and held that the first sale doctrine endorsed in § 109(a) may be applied to imported copies.

The Ninth Circuit nevertheless held below that the first sale doctrine only provides a defense to a copyright infringement action "where the disputed copies of a copyrighted work were either made or previously sold in the United States with the authority of the copyright owner." *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008).

In so holding, the Ninth Circuit imposed a place of manufacturing requirement on the first sale doctrine for goods manufactured abroad by United States copyright owners and imported and sold in the United States that lacks support in the text, structure, history, or purposes of the Copyright Act. In stark tension with the policy against restraints on alienation, the Ninth Circuit's rule affords manufacturers, like Omega, the ability to control the downstream sales of goods for which they have already been paid. The Ninth Circuit's rule will have significant adverse consequences for trade, e-commerce, secondary markets, small businesses, consumers, and jobs in the United States. Accordingly, this Court should reverse.

DISCUSSION

I. THE NINTH CIRCUIT'S PLACE OF MANUFACTURING REQUIREMENT IS INCONSISTENT WITH THE TERMS, STRUCTURE, HISTORY, AND PURPOSES OF THE COPYRIGHT ACT

This case concerns the Ninth Circuit's extratextual assertion that the first sale doctrine embodied in section 109(a) of the Copyright Act includes a place of manufacturing requirement that limits its application to goods manufactured in the United States. *Omega*, 541 F.3d at 983. Section 109(a) provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a).

The Ninth Circuit reasoned that Congress's reference to copies "lawfully made under this title" can only be read to mean those copies "lawfully made *in the United States*." *Omega S.A.*, 541 F.3d at 987. But that reasoning is fundamentally flawed and would inject both significant textual anomalies and absurd consequences into the Act that Congress could not possibly have intended.

A. "Lawfully Made Under This Title" Means Made According To Or In Conformance With The Copyright Act, Not Made In The United States

The phrase "lawfully made under this title" is not expressly defined in the Copyright Act. Both by common usage and context, its most natural meaning is made according to, or in conformance with, the Copyright Act. *See* WEBSTER'S THIRD NEW INT'L DICTIONARY 2487 (2002) (defining "under" as "in accordance with"). As the United States explained in its *amicus* brief in the *Quality King* case, "[t]he correct and more natural reading of the phrase 'lawfully made under this title' refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17." Br. of United States as *Amicus Curiae*, filed in *Quality King*, 30 n.18 (No. 96-1470).

In other words, copies are subject to the first sale doctrine if they were made consistent with the terms of the Copyright Act, which includes copies made by or with the consent of the United States copyright holder or otherwise authorized by the Act.

Omega argues that "when a copy is made outside of the United States for sale outside of the United

States, it cannot be made pursuant to or in compliance with the Copyright Act." Resp. Br. at 14. Omega's argument is nonsensical. An act may conform with numerous laws simultaneously. When Omega manufactures a watch in Switzerland, Omega's conduct is regulated by Swiss law, much as any future sale of the copy in the United States would be regulated by the law of the United States. Yet, Omega's manufacturing in Switzerland may conform with the copyright laws of both nations.

Reading Section 109(a) as applying to goods imported and sold in the United States without regard to their place of manufacture does not require the application of United States laws to conduct occurring outside the territory of the United States. The Copyright Act and the first sale doctrine it codifies are applicable to the instant dispute because the watches purchased by Costco were imported into and resold within the United States. Indeed, Omega invoked United States copyright law in instituting this suit. It is therefore no more "extraterritorial" than this Court's holding in *Quality King* that the first sale doctrine of Section 109(a) applies generally to goods imported under Section 602. For this reason, the presumption against extraterritoriality has no bearing on the question presented. *See Quality King*, 523 U.S. at 145 n.14 (stating that "the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act").[2]

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[2] The Ninth Circuit relied on reasoning expressly disclaimed in *Quality King*. In *Omega*, the Ninth Circuit relied on its prior interpretations of section 109(a), including its holdings in *BMG*. *Omega*, 541 F.3d at 985. In *BMG*, the Ninth Circuit

B. The Copyright Act Is Structured Without Regard To Place Of Manufacturing

Reading Section 109(a) unlimited by place of manufacturing best accords with other provisions of the Copyright Act. As this Court has long recognized, "[s]tatutory construction . . . is a holistic endeavor." *United Sav. Ass'n of Texas v. Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988) (internal citations omitted).

Section 106 of the Copyright Act, which defines the rights afforded a copyright holder under United States law without regard to the place of manufacturing, counsels strongly against importing a place of manufacturing requirement into the first sale doctrine of Section 109(a). Section 106 provides in pertinent part:

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rationalized imposing a place of manufacturing requirement on the first sale doctrine as follows: "Construing [§] 109(a) as superseding the prohibition on importation set forth in . . . § 602 would render § 602 virtually meaningless." *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991) (quoting *CBS v. Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983) (brackets omitted), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984). Such is not the case.

Section 602(a) operates separately from section 109(a), deeming the "[i]mportation into the United States, without the authority of the owner of copyright under this title" of copies "acquired outside of the United States" to be "an infringement of the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a). As this Court held in *Quality King*, "since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right 'under section 106,' and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners" of lawfully made products imported into the United States. *Quality King*, 523 U.S. at 145.

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted works in copies or phonorecords; . . . (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .

17 U.S.C. § 106(1) & (3). Reading section 109(a) with section 106, "made under this title" means simply made in conformance with the Copyright Act.

Tellingly, Congress has used the exact phrase "lawfully made under this title" in two additional provisions of Title 17. Only a straightforward reading of the phrase, unrestricted by place of manufacturing, permits a consistent, coherent construction of the title.

The Audio Home Recording Act ("AHRA") provides that royalty payments "shall . . . be distributed" to certain "interested copyright part[ies]," including, *inter alia*, "the owner of the exclusive rights under section 106(1) of this title to reproduce a sound recording of a musical work that has been embodied in a digital musical recording or analog musical recording *lawfully made under this title* that has been *distributed*." 17 U.S.C. § 1001(7) (emphasis added). The term "distribute" is limited specifically to distribution "in the United States." 17 U.S.C. § 1001(6). Thus, Congress used the concept of "in the United States" and "lawfully made under this title" distinctly — and did so in the same sentence. Additionally, if the phrase "lawfully made under this title" were given the Ninth Circuit's mean-

ing, royalties would never be distributed for recordings manufactured abroad.

Similarly, Section 110 provides that the "performance or display" of a copy for educational use is not an infringement of copyright unless the copy "was not lawfully made under this title." 17 U.S.C. § 110(1). The only logical interpretation of this provision is that Congress intended to dissuade teachers from displaying pirated works or works otherwise not made in accordance with the Copyright Act. *See* H.R. Rep. No. 94-1476 (stating that the exception to the exemption for copies "not lawfully made under this title" "deals with the special problem of performances from *unlawfully-made* copies") (emphasis added). Congress could not have intended to limit social studies, music and art teachers' curricula only to works created in the United States. Surely teachers are not responsible for determining where works were created in order to prepare their courses. Congress could not have intended to expose our nation's teachers to liability for copyright infringement for introducing their students to genuine artistic and educational performances simply because the works were manufactured abroad.

Moreover, this Court should be particularly wary of imposing a place of manufacturing requirement on section 109, given that Congress was quite willing to structure protection under United States copyright law in explicit geographic terms. The Copyright Act devotes an entire section to "National Origin," discussing the nationality of authors, among other geographic considerations. 17 U.S.C. § 104. In section 104, the Copyright Act affords protection in expressly geographic terms by providing that a work may be "subject to protection under [Title 17]" based on the place of the work's first publication. However,

section 104 does not provide for protection on the basis of place of manufacturing, nor does the section limit its protections on that ground. Although section 104 may not be dispositive of the interpretative question before this Court, the absence of any reference to place of manufacturing in Congress's focused consideration of the relevance of the origin of a work weighs against reading a place of manufacturing limitation into the law.

As these other provisions of the Copyright Act make clear, the first sale doctrine of Section 109(a) is applicable to goods embodying copyrighted works that are imported into and sold in the United States, regardless of their place of manufacture. As this Court concluded in *Quality King*, neither section 109(a) nor earlier codifications of the first sale doctrine were intended by Congress to "limit [the first sale doctrine's] broad scope." *Quality King*, 523 U.S. at 152. This Court should not now read into section 109(a) just such a limitation.

C. At The Time Congress Adopted Section 109(a) It Removed A Longstanding Place Of Manufacturing Provision From The Copyright Act

Had Congress intended to limit application of the first sale doctrine to copies made "within the United States," Congress would have said so. Indeed, at the same time it adopted Section 109(a), Congress began phasing out a longstanding place of manufacturing requirement from the Copyright Act.

Section 601(a) of the Act, the so-called "manufacturing clause," provided: "Prior to July 1, 1986,[3] and

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[3] *See* Public Law 97-215, 96 Stat. 178 (1982) (substituting "1986" or "1982").

except as provided by subsection (b), the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited *unless the portions consisting of such material have been manufactured in the United States or Canada*." 17 U.S.C. § 601(a) (emphasis added). Thus, not only was Congress generally capable of specifying the relevance of an activity's occurrence "in the United States," Congress expressly specified the relevance of manufacturing in the United States in the Copyright Act. *See Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) ("When Congress considered the place of manufacture to be important, . . . the statutory language clearly expresses that concern.").

In stark contrast, Congress did not include such a place of manufacturing requirement in section 109(a). When Congress includes language in one section of an Act and excludes that language from another, "Congress' silence" in the latter section "speaks volumes." *U.S. v. Shabani*, 513 U.S. 10, 14 (1994).

Moreover, Congress's handling of Section 601(a)'s express manufacturing requirement demonstrates the absurdity of the Ninth Circuit's construction of Section 109(a). That express manufacturing requirement *protected* U.S. publishers from foreign competition. It first "came into the copyright law as a compromise in 1891." H.R. Rep. No. 94-1476. As codified in the 1909 Act, the "manufacturing clause" required "[t]hat in the case of the book the copies so deposited shall be accompanied by an affidavit . . . duly made by the person claiming copyright . . . setting forth that the copies deposited have been

printed from type set within the limits of the United States or from plates made within the limits of the United States from type set therein . . . ." Act of Mar. 4, 1909 § 16, 35 Stat. 1080-1081 (1909). This place of manufacturing requirement was intended to protect "American typographers and bookbinders against foreign competition." 2 NIMMER ON COPYRIGHT § 7.22.

However, "the manufacturing clause exemplifie[d] short-sighted and parochial tendencies that [proved] destructive of the best interests of both copyright creators and users." *Id.* Accordingly, in the 1976 Copyright Act, Congress chose to phase out the place of manufacturing requirement. *See* 17 U.S.C. § 601 (stating that the manufacturing clause would remain in effect until July 1, 1986).

The legislative history of the Copyright Act demonstrates that Congress carefully considered place of manufacturing requirements and found such requirements wanting. Congress concluded that "[t]he manufacturing clause *violates the basic principle that an author's rights should not be dependent on the circumstances of manufacture.*" H.R. Rep. No. 94-1476 (emphasis added). Congress was concerned that authors were held "hostage" by the manufacturing requirement, which "unfairly discriminate[d] between American authors and other authors." *Id.* Additionally, Congress emphasized the need to "eliminate the tangle of procedural requirements . . . burdening . . . the United States Customs Service." *Id. See also* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 877 (1987) ("The Copyright Office, the Justice Department, the State Department, and the Commerce Department all opposed the manufacturing clause.").

Congress concluded that "there is no justification on principle for a manufacturing requirement in the copyright statute, and although there may have been some economic justification for it at one time, that justification no longer exists." H.R. Rep. 94-1476, at 166. That is not to say that Congress considered the economic concerns of the U.S. printing industry irrelevant. Quite the opposite. Because Congress "recognize[d] that immediate repeal of the manufacturing requirement might have damaging effects in some segment of the U.S. printing industry," Congress chose to phase out the manufacturing requirement through the use of a sunset provision. *Id.*

The abrogation of the manufacturing clause makes clear that Congress in 1976 intended to remove place of manufacture as a relevant factor in the determination of whether the distribution of goods embodying copyrighted works within the United States violates the Copyright Act. It defies reason that Congress would at the same time, in the same Act, insert by mere implication and without comment a "reverse manufacturing clause" that greatly re-tilts the playing field, this time to the benefit of *foreign* publishers and manufacturers at the expense of their domestic counterparts by creating a strong incentive to manufacture copies abroad. Rather, by phasing out the pro-domestic publishing manufacturing clause, Congress meant to eliminate the discriminatory impact that previously flowed from copyright's focus on place of manufacture. Omega's argument flies in the face of this congressional goal.

"Few principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded." *INS v. Car-*

doza-Fonseca, 480 U.S. 421, 442-443 (1987). It would therefore be incongruous, to say the least, for this Court to impose a place of manufacturing limitation in Section 109, when, at the time Congress drafted and enacted Section 109, it simultaneously excised a longstanding place of manufacturing requirement from our copyright law.

II. EXEMPTING GOODS MANUFACTURED ABROAD FROM THE FIRST SALE DOCTRINE WOULD BE DETRIMENTAL TO THE UNITED STATES ECONOMY

Reading section 109(a) to impose a place of manufacturing requirement on the first sale doctrine would negatively impact commerce in the United States. A place of manufacturing requirement will create incentives for off-shore manufacturing. Copyright protection is enshrined in our Constitution "[t]o promote the progress of science and useful arts," not to permit manufacturers to price discriminate and manipulate markets to the detriment of competitors and consumers. U.S. CONST. art. 1 § 8. These public policy concerns weigh strongly against the Ninth Circuit's reading of section 109(a).

A. Imposing A Place Of Manufacturing Requirement On The First Sale Doctrine Infringes on Consumers Rights to Redistribute Goods

Producers of consumer goods have "waged a full-scale battle in legislative, executive, and administrative fora" for regulations that would grant them power to control the downstream importation of secondary market goods into the United States. *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 295 (1988) (Brennan, J., concurring in part and dissenting in part). "Having lost in other fields of law, manufac-

turers are now realizing that copyright may furnish a supplemental vehicle for protection." 2 NIMMER ON COPYRIGHT § 8.11[B][4] (2009). As a result, manufacturers, like Omega, who have already been compensated for these goods, are now attempting to use copyright law to hamper the ability of consumers' and resellers' to re-distribute goods and comparison-shop from different vendors.

The Ninth Circuit's opinion will encourage the producers of consumer goods to stamp their products with copyrighted symbols in order to control downstream sales of the otherwise non-copyrighted products into the United States. In so doing, the Ninth Circuit permits companies to use copyright law like a "weapon against gray market goods." Donna K. Hintz, *Battling Gray Market Goods with Copyright Law*, 57 ALB. L. REV. 1187, 1191 (1993-1994). Reducing consumer rights in this dramatic way is inconsistent with the purposes of copyright law and should not be endorsed by this Court.

B. The Ninth Circuit's Rule Will Stifle Secondary Markets

Exempting foreign consumer goods from the first sale doctrine could unsustainably burden secondary markets. "The essential trade in the Copyright Act is monopoly and policing: the grant of exclusivity comes with the duty to protect it. The Act does not grant the holder the windfall of both monopoly and reimbursement for its maintenance." *Sony Discos Inc. v. E.J.C. Family P'ship*, No. 4:02-cv-03729, 2010 WL 1270342, at 5 (S.D. Tex. Mar. 31, 2010). It is impossible for secondary market participants to identify each alleged copyright and make a determination regarding its legal status. Moreover, secondary market participants would have no means to determine where the goods were manufactured,

whether and where a prior sale occurred and whether the copyright owner had authorized the prior sale.

Imposition of such a substantial and unmanageable burden is likely to stifle commerce in the secondary market. This burden would translate into higher costs for consumers. Such a result in the current difficult economic environment would be particularly troubling. *See, e.g.*, U.S. Dept. of Labor, Bureau of Labor Statistics, Econ. News Release, *Mass Layoff- April 2010* (May 21, 2010), *available at* http://www.bls.gov/news.release/archives/mmls_05212010.pdf ("The national unemployment rate was 9.9 percent in April 2010, seasonally adjusted, up from 9.7 percent the prior month and from 8.9 percent a year earlier."); Nat'l Bureau of Econ. Research, *NBER Committee Confers: No Trough Announced* (Apr. 12, 2010), *available at* http://www.nber.org/cycles/april2010.pdf (determining that it is premature to the determine a trough date to mark the end of the recession).

The Ninth Circuit's rule also could stifle commerce in the secondary markets generally and in the international secondary markets specifically. Such a result would significantly impact the economy. The volume of commerce in the international secondary markets is substantial. In 2009 alone, the United States imported $10,430,362,000 of used or second-hand goods. U.S. Census Bureau, U.S. Int'l Trade Statistics, *Value of Exports, General Imports, and Imports for Consumption by (NAICS - 920) Used or Second-hand Merchandise* (May 25, 2010), *available at* http://censtats.census.gov/naic3_6/naics3_6.shtml. By March 2010, the United States had already imported an additional $3,474,199,000 worth of used or second -hand goods. *Id.* This market is of

significant value to our economy and should be allowed to thrive.

C. The Ninth Circuit's Rule Will Stifle E-commerce

E-commerce companies are exemplars of American innovation and ingenuity and make significant contributions to the United States economy and job market. The Ninth Circuit's rule substantially threatens the increasingly important e-commerce sector of the economy, particularly secondary market e-commerce. International e-commerce is growing rapidly. In the first quarter of 2010, there were approximately $38.7 billion in retail e-commerce sales in the United States. U.S. Census Bureau, News, Quarterly Retail E-Commerce Sales 1st Quarter 2010 (May 18, 2010), *available at* http://www.census.gov/retail/mrts/www/data/pdf/10Q1.pdf. These first quarter sales represent a 14.3 percent increase from the first quarter of 2009. *Id.* E-commerce has increased from approximately 1.2% of total retail sales in 2001 to approximately 4.0% of total retail sales in 2010. *Id.* E-commerce "benefits consumers by helping them enjoy lower prices and more choices." Yannis Bakos, *The Emerging Landscape for Retail E-commerce*, 15 J. ECON. PERSPECTIVES 69, 78-79 (2001). No misinterpretation of copyright law should be allowed to hinder the growth of this market.

D. The Ninth Circuit's Rule Will Harm Small Businesses

Likewise, small businesses would be particularly burdened by increased transaction costs. As the Ninth Circuit previously recognized, without the first sale doctrine, "every little gift shop in America would be subject to copyright penalties for genuine

goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back." *Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996). Imposing a place of manufacturing requirement on section 109(a) may well impose unsustainable costs on small businesses, which may translate into the loss of additional jobs. Small businesses that have weathered the economic downturn should not now be subjected to such risk.

E. The Ninth Circuit's Rule Will Further Depress The Job Market In The United States

If section 109(a) is interpreted to exempt foreign consumer goods from the first sale doctrine, goods stamped with copyrighted material and manufactured overseas will be afforded greater protection under the Copyright Act than goods manufactured domestically. This Court should not endorse the Ninth Circuit's graft of a place of manufacturing requirement onto section 109(a) because such a requirement creates incentives for off-shore manufacturing, striking yet another blow to the American worker.

When repealing the manufacturing requirement, Congress was sensitive to creating incentives for overseas manufacturing and creating a trade imbalance. Congress concluded that, "although there may have been some economic justification [for the manufacturing requirement] at some time, that justification no longer exists." H.R. Rep. 94-1476. Far from concluding that the economic consequences of its rule were irrelevant, Congress simply concluded that the economic justification no longer existed in the

context of book publishing. Given Congress's sensitivity to trade imbalances and economic concerns, Congress could not have intended an interpretation of section 109(a) that would exacerbate trade imbalances and motivate overseas manufacturing.

"The loss of well-paying manufacturing jobs has harmed the U.S. economy. Declines in manufacturing employment reduce over-all consumer demand in the United States and limit the economy's potential for expansion." Thomas A. Piraino, Jr., *A Proposed Antitrust Approach to Buyers' Competitive Conduct*, 56 HASTINGS L.J. 1121, 1123-24 n.10 (2005) (citations omitted). However, employment prospects in the manufacturing sector are improving, as "[s]izable employment gains occurred in manufacturing" when the sector added 44,000 jobs in April. Indeed, the manufacturing sector has added 101,000 jobs since December. U.S. Dept. of Labor, Bureau of Labor Statistics, Econ. News Release, *Employment Situation Summary*, (May 7, 2010), http://www.bls.gov/news.release/archives/empsit_05072010.pdf. These gains are significant and should not be counteracted by a strained interpretation of section 109(a) that motivates additional off-shore manufacturing.

The imposition of a place of manufacturing requirement on section 109(a) would also likely lead to job losses in the secondary market. As increased transaction costs may curtail trade, importers and resellers may face a diminishing market and concomitant job loss.

The United States already faces an overall trade deficit in goods and services. In March 2010, the United States trade deficit for goods and services was $40.4 billion. U.S. Census Bureau, U.S. Bureau of Econ. Analysis News, *U.S. Int'l Trade in Goods*

and Services March 2010 (May 12, 2010), *available at* http://www.bea.gov/newsreleases/international/trade/2010/trad0310.htm. The United States increased the trade deficit for goods to $52.9 billion. *Id.* The deficit in consumer goods was even more stark. Whereas the United States exported approximately $ 14,942 million in consumer goods, the United States imported approximately $ 37,193 million in consumer goods[4] — roughly $2.50 of imported goods for every $1 exported. U.S. Dept. of Commerce, Bureau of Econ. Analysis, International Econ. Accounts, *U.S. Trade in Goods* (June 14, 2010), *available at* http://www.bea.gov/agency/uguide1.htm#_1_19. Consumer goods include televisions, stereo equipment, toys, sporting goods, appliances, and jewelry — all goods that can easily be stamped with a copyrighted image. *Id.* If this Court interprets section 109(a) to afford greater protections to foreign consumer goods, an even greater percentage of consumer goods will likely be produced overseas.

F. The United States Agrees That A Place Of Manufacturing Requirement Will Have "Adverse Policy Consequences"

The United States agrees that "the court of appeals' reasoning could result in adverse policy consequences, particularly if carried to its logical extreme." United States br. on pet. for certiorari, at 5. The United States recognizes that "[t]he potential implications of excluding foreign-made copies of a copyrighted work from Section 109(a)'s coverage are indeed troubling." *Id.* at 18. In fact, the United States identified "higher unemployment," "encour-

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[4] The import volume does not even include automotive imports.

age[ing] companies to move manufacturing overseas," and the hesitation of downstream retailers "to sell a variety of products for fear that the sale could be deemed infringing" as "legitimate concerns." *Id.* at 17-18.

Yet, in its amicus brief on petition for certiorari, the United States argued that this Court should not concern itself with these "legitimate concerns" because "some of the potential adverse policy effects . . . are a direct . . . consequence of Congress's decision in 1976 to expand Section 602's ban on unauthorized importation beyond piratical copies [which] segment[ed] domestic and foreign markets." *Id.* at 18. This argument misses the mark. That Congress allowed for the segmentation of domestic and foreign markets to some degree is hardly evidence that Congress intended the exacerbated market segmentation that would follow from exempting foreign manufactured items from the first sale doctrine.

"The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152. The first sale doctrine should not be interpreted to discriminate between domestic and foreign consumer goods. Regardless of the place of manufacturing, once a copyright owner had sold his property, "he has exhausted his exclusive statutory right to control its distribution." As the United States recognizes, holding otherwise would precipitate a host of adverse policy results.

CONCLUSION

For the foregoing reasons, the judgment of the United States Court of Appeals for the Ninth Circuit should be reversed.

Respectfully submitted.

DAVID B. SALMONS
Counsel of Record
MARY T. HUSER
RAECHEL K. ANGLIN
BINGHAM MCCUTCHEN LLP
2020 K Street NW
Washington, DC 20006-1806

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AMICUS CURIAE BRIEF

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COSTCO WHOLESALE CORPORATION,

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v.

OMEGA, S.A.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF *AMICI CURIAE* ENTERTAINMENT MERCHANTS ASSOCIATION AND NATIONAL ASSOCIATION OF RECORDING MERCHANDISERS IN SUPPORT OF PETITIONER

KATHLEEN HARTNETT
SPIVA & HARTNETT LLP
1776 Massachusetts Ave., NW
Suite 600
Washington, DC 20036
(202) 785-0601

JOHN T. MITCHELL
Counsel of Record
INTERACTION LAW
1629 K Street, NW
Suite 300
Washington, DC 20006
(202) 415-9213
john@interactionlaw.com

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
OR CALL COLLECT (402) 342-2831

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INTEREST OF *AMICI CURIAE*

Entertainment Merchants Association, Inc. ("EMA"), is the major trade association representing retailers and distributors in the home video and video game industries. National Association of Recording Merchandisers, Inc. ("NARM"), is the major trade association representing retailers and distributors of sound recordings. They respectfully submit this brief as *amici curiae* in accordance with Supreme Court Rule 37.[1]

The members of EMA and NARM distribute, through sale and rental, lawfully made copies of "audiovisual works" ("home videos" in the DVD and Blu-ray disc format) and "video games" (including "console games" for use in proprietary systems and "PC games" playable in a variety of personal computers). *Amici*'s members also sell lawfully made "phonorecords," consisting of music CDs, vinyl record albums, and flash media. In addition, members of *Amici* sell hardware such as cell phones, portable media players and personal digital assistants "pre-loaded" with audiovisual works, computer programs, and sound recordings, or onto which consumers

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[1] Petitioner Costco Wholesale Corporation is not a member of either EMA or NARM. The parties were provided with timely notice of the intent to file this brief, and they have consented to the filing of this brief. Counsel for a party did not author this brief in whole or in part. No person or entity other than *Amici Curiae*, their members, or their counsel made a monetary contribution to the preparation and submission of this brief.

reproduce such works, meaning that these devices, too, are "copies" and "phonorecords" as those terms are defined and used in the Copyright Act. *See* 17 U.S.C. §§ 101, 106(1), 106(3), 109 and 202. A healthy first sale doctrine is crucial to enabling *Amici*'s members to provide the public with the broadest possible lawful access to copyrighted works.

In addition to name brand music, video and video game specialty chains, the members of NARM and EMA include global mass merchants as well as single-store specialty shops. Members sell or rent from physical stores, "online" Internet stores, and stores distributing copies and phonorecords using both business models. Members sell pre-recorded media as well as licenses to reproduce ("download") works lawfully onto the consumer's own media. Such licensed reproductions may be made from another copy or phonorecord, or from an Internet-accessed server (perhaps on the retailer's own network, for which it is the Internet service provider).[2]

Amici's members purchase new and used copies and phonorecords in the free flow of commerce. Such purchases are often not in privity with the copyright holder, having been purchased from third parties such as independent distributors, a competitor, their

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[2] *Amici*'s hundreds of members include Best Buy, Blockbuster, GameStop, Hastings, iTunes, J&R Music World, Netflix, Nokia, Redbox, Target, Trans World Entertainment, and Verizon, as well as numerous other national retailers and local merchants.

own customers (often as trade-ins), or from the inventories of merchants that have ceased operations. Members generally do not know, nor could they reasonably determine, the country in which these copies were made.[3] The NARM Distributor Database,[4] which is the leading industry database that copyright owners use to communicate available copies and phonorecords to music and video retailers, does not contain a field for the copyright owner to indicate where the copies are made.[5] Yet, under the Ninth Circuit's holding, prior knowledge of the place of

---

[3] Many states require that the "true name and address of the manufacturer" appear on the product or packaging, but that information identifies only the manufacturer's address, not the place of manufacture. *See, e.g.*, Fla. Stat. ch. 540.11(3)(a)(3) (2010). Moreover, the products at issue may be composed of components made in different countries. For example, a music CD or movie DVD may have been made in the United States, but the copyrighted packaging or label could have been made elsewhere. A typical "true name and address" law is concerned only with the labeling applicable to the article on which the primary work is reproduced. *See, e.g.*, N.C. Gen. Stat. § 14-435(b) (2010) ("the term 'manufacturer' shall not include the manufacturer of the article's packaging, cover, box, jacket, or label itself"). It would be odd for the sale of a CD to be protected by § 109(a), but for the sale of the accompanying copyrighted packaging to result in distribution liability.

[4] *See* http://www.narm.com/services/database/narm-distributor-database/whatisndd/.

[5] Under NARM Distributor Database governance, copyright owners and retailers alike may suggest new data fields, and do so regularly, but none have expressed an interest in data identifying whether the copy or phonorecord was made in the United States.

manufacture would be indispensable for any merchant selling or renting such products.[6]

Amici's members also have an interest in preserving the first sale doctrine rights of their customers. For example, a prospective consumer may be less likely to purchase a copy or phonorecord as a gift, or to take a chance on a lesser known copy or phonorecord, if resale or gifting could not be undertaken without obtaining permission from the copyright holder, separately from the purchase price paid to the retailer. And, to an ever-increasing degree, *Amici*'s members are engaged in sublicensing consumers to reproduce works onto their own tangible media, or in selling copies of computer programs that consumers are entitled, by law, to reproduce onto a personal computer.[7] Here, too, consumers may be reluctant to engage in such activities if their rights with respect to their own computers or portable

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[6] It is not unusual for copyright holders to sell their rights long after copies are in circulation. Consumers cannot necessarily tell who owns the copyright just by examining the copy.

[7] 17 U.S.C. § 117 provides, in part:

> Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:
>
> > (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner.

devices may be affected by making licensed reproductions abroad.

The first sale doctrine, codified in §§ 109 and 202 of the Copyright Act, is a primary driving force behind *Amici*'s members' freedom to compete vigorously with each other in the broadest possible dissemination of creative works to the public at the most competitive prices possible.[8]

Amici's members have a wealth of experience with myriad business models based partially or entirely on the entitlement conferred by 17 U.S.C. §§ 109 and 202. It is the expressive works embodied in these copies and phonorecords that *Amici*'s customers seek out in their own right; such expression is not merely incidental to an object used for telling the time of day, as in the case at bar, or washing hair, as in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

Finally, *Amici* have a history of engagement in legislative and public policy debates concerning the proper scope of § 109(a) in the United States and in international treaties providing global recognition of the legitimacy of the first sale doctrine.[9]

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[8] The Register of Copyrights has observed, "competition policy is viewed as one of the underlying bases for the first sale doctrine." DMCA SECTION 104 REPORT, at 21, U.S. Copyright Office (August 2001).

[9] *Amici* have sent observers to Geneva during negotiations of key treaties touching on the distribution right. International

(Continued on following page)

Amici submit this brief not to repeat Petitioner's compelling arguments for reversal. Instead, *Amici* offer additional arguments for reversal and highlight the extremely undesirable consequences of the Ninth Circuit's decision for *Amici*'s members and their customers.

SUMMARY OF ARGUMENT

Retail competition and innovation have thrived under the first sale doctrine. In misinterpreting § 109(a) and gutting the first sale doctrine with respect to foreign-manufactured copies reproduced by or under authority of the U.S. copyright owner, the Ninth Circuit has stretched judicial reasoning beyond its limit, has contravened the text of the Copyright

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treaties negotiated with the United States after enactment of the Copyright Act of 1976 fit comfortably with the reading of the first sale doctrine advanced by Petitioner. For example, recent treaties under auspices of the World Intellectual Property Organization ("WIPO") explicitly provide that Parties are free to determine national rules for exhaustion of the distribution right with respect to copies and phonorecords made "with the authorization of" the copyright owner. *See* Articles 8 and 12 of the WIPO Performances and Phonograms Treaty, adopted in Geneva on December 20, 1996; Article 6 of the WIPO Copyright Treaty, adopted on the same date. Even Switzerland, where the Omega watches at issue in this case were made, Joint Appendix at 60 (Final Pre-Trial Conference Order, ¶ 5(2)), would appear to allow Costco to sell identical watches in Switzerland even if they were made in the United States. *See*, RS 231.1, Loi fédérale du 9 octobre 1992 sur le droit d'auteur et les droits voisins, art. 12.

Act and this Court's precedent, and has blurred the clear, longstanding distinction in § 202 between rights in copies and rights in copyrights.[10] *Amici* urge this Court to reverse the Ninth Circuit's misinterpretation of § 109(a), and to restore the Copyright Act's separation, embodied in § 202, between ownership of the tangible article and ownership of the intangible copyright.

In addition, the Ninth Circuit's holding, if allowed to stand, dramatically alters the traditional contours of copyright protection. The holding places under the exclusive control of the author the historically unencumbered nonexclusive right – and therefore constitutionally protected right – to redistribute noninfringing copies and phonorecords made abroad. Pursuant to the interpretative canon of constitutional avoidance, the Ninth Circuit's erroneous interpretation of § 109(a) should be reversed because it raises serious constitutional questions concerning the burdening of fundamental First Amendment rights.

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[10] 17 U.S.C. § 202 provides, in relevant part: "Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied."

ARGUMENT

I. THE NINTH CIRCUIT'S DECISION IMPERILS WIDELY AND LONG-ACCEPTED MEANS OF DISTRIBUTING COPIES AND PHONORECORDS

A. The Ninth Circuit's decision baselessly threatens retailers' well-settled right to distribute copies of copyrighted works

Amici's members generate billions of dollars of annual revenue from distribution of copies and phonorecords, and the licensing of reproductions of works into copies and phonorecords, for public benefit. Their businesses are at risk if the Ninth Circuit's interpretation of "under this title" in § 109(a) takes hold, undoing 150 years of settled expectations under the first sale doctrine. Now, according to the Ninth Circuit, the mere shift of manufacturing operations abroad is all that it takes for copyright owners to nullify the historic limitation on their distribution right, which is expressly set forth in § 109(a).

A review of business models employed by *Amici*'s members demonstrates the extent to which the Ninth Circuit's decision would fundamentally alter the traditional contours of copyright protection and would undermine established and legitimate commerce in expressive works – commerce that, to the degree not rightfully limited by copyright, is fully protected by the First Amendment to the U.S. Constitution.

1. Selling any copy would require a license

If allowed to stand, the Ninth Circuit's ruling would radically change settled practice by requiring a license from the copyright holder for the simple act of selling a copy or phonorecord made abroad by or under the authority of the copyright holder. Such a license would be required even if the copyright holder was also the supplier to the U.S. market. Copyright holders could choose to grant or withhold licenses on a whim. A disfavored retailer, whether because of its discount pricing, product reviews, or for untold reasons, could be prohibited from selling specific copies or phonorecords for the entire term of the copyright.

Although copyright holders sometimes grant "exclusives" to certain retailers or for other reasons refuse to sell products to a retailer or a class of retailers, prior to the Ninth Circuit's ruling, any competing retailer remained free to purchase copies or phonorecords from the favored retailer and offer them for resale. Under the Ninth Circuit's reading, however, such copies, if made abroad, would not be "lawfully made under this title," and any unlicensed resale would be infringing.[11]

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[11] Recognizing the radical impact of exempting foreign-made items from the first sale doctrine, the Ninth Circuit has created from whole cloth an "exception" providing that if the copyright holder sells any of the foreign-manufactured copies in the United States, the owners of those *non*-"lawfully made"

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2. Competition from secondary sales could be suppressed or eliminated

Some copyright holders chafe at the growing market for used copies and phonorecords, unable to appreciate that a consumer's original purchasing decision may have been aided by the intrinsic value in resale or gift of the new copy, or that the consumer may choose buying a used copy at a "used price" in the same manner that he or she chooses to buy a used car or thousands of other common, previously used goods.[12]

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copies (under the Ninth Circuit's rule) may nevertheless enjoy the first sale doctrine's benefits. Pet. App. 15a-16a. As other courts have pointed out, there is no basis in law for the Ninth Circuit's exception transforming copies "unlawfully made" (because the copyright holder made them abroad) into copies "lawfully made" (because the copyright holder sold them domestically). *See Pearson Education, Inc. v. Liu*, 656 F. Supp. 2d 407, 414 (S.D.N.Y. 2009), *petition to appeal pending*, No. 10-894-mv (2d Cir.) (rejecting the Ninth's Circuit's exception for foreign-made products resold in the United States); *see also John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 U.S. Dist. LEXIS 96520, *37 n.25 (S.D.N.Y. Oct. 19, 2009), *appeal pending*, No. 09-4896 (2d Cir.) (reluctant to apply a "bright-line rule" that "results in the phenomenon that, once imported, the goods manufactured abroad could provide the U.S. copyright holder with never-ending section 106(3) 'exclusive distribution' protection against any subsequent sale, no matter how legitimate.").

[12] *See, e.g.*, Mike Anderiesz, *Publishers Rankled By Secondhand Games Boom*, THE GUARDIAN (Jan. 3, 2006), at http://www.guardian.co.uk/technology/2006/jan/19/games.guardianweeklytechnologysection2; Troy Wolverton, *Video Games' Second Life*, THESTREET.COM (Dec. 2, 2005); David D. Kirkpatrick, *Online*

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Under the Ninth Circuit's holding, manufacturing abroad would empower copyright holders to prohibit all secondary sales, even though such sales are an established and significant part of the market. *Amici* estimate the market for resale at retail of used copies to comprise as much as 15% of all sales of video games and substantial portions of total sales of DVDs. Independent music retailers estimate sales of used CDs at about 20% of all sales, on average, with some stores ranging as high as 50%.[13] For video games, where the cost of a new title is substantially higher than for a music CD or movie DVD, the secondary market for used games provides both a lower cost opportunity for some consumers to obtain these works, as well as a "trade-in value" that makes the original new purchase a better consumer value.[14]

One recent study by a leading industry research firm, The NPD Group, Inc., found an increase in "impulse" used game purchases in response to the recession:

Sales Of Used Books Draw Protest, THE NEW YORK TIMES (Aug. 10, 2002), at http://query.nytimes.com/gst/fullpage.html?res=9400e0dc113df933a25757c0a9649c8b63.

[13] This volume of commerce does not include non-commercial redistribution by lending, trading or gifting.

[14] Consumers rely widely on this option for access to video games and, by one estimate, choose this purchase option to the tune of two billion dollars per year with a single national retailer.

> The large percentage of shoppers buying a game on impulse coincides with a rise in low-cost used games, which flourished during the recessionary months to the tune of $65 million in sales.
>
> Impulse game buyers overwhelmingly selected low price as the primary driver behind purchasing their game at a specific retailer. Impulse shoppers in particular are more cost conscious; the average price of impulse purchases was only $27.19 compared with $42.97 for planned purchases. The reduced price of used games is, therefore, increasingly attractive to gamers. In fact, one-third of gamers reported buying a used game in the past six months and only 10 per cent say they would never buy a used game.[15]

All such resale commerce is jeopardized by the Ninth Circuit's interpretation of § 109(a).

3. Rental could be prohibited

This Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), ushered in the age of consumer-owned or rented copies of motion pictures. The videocassette recorder (VCR) not only enabled the home recording at issue

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[15] Bargain-Hunting Gamers Turning to Impulse Buying, Used Titles, http://www.npd.com/press/releases/press_091015.html (last visited June 30, 2010).

in that case, but also provided a technological platform for the explosion of the market for pre-recorded videocassette tapes. Since that time, copyright holders have variously attempted to prevent or impair home video rental, such as by contractual agreements to delay or restrain such trade, exclusive sales to non-renting companies, or labeling copies of videos as "not for rental." In each instance, the first sale doctrine and § 109 rebuffed such attempts.[16] Now, the Ninth Circuit has provided offshore manufacturing as a roadmap for copyright holders to gain control over copies they no longer own, allowing them to prohibit or extract royalties for rental despite that rental has long been permitted under §§ 109 and 202,

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[16] *See, e.g., NEGB, LLC v. Weinstein Co. Holdings*, 490 F. Supp. 2d 89 (D. Mass. 2007) (movie producer was labeling DVD copies as "intended for sale only" and announcing that consumers would be given a toll free number to call if they obtained a copy by rental). Before this Court decided *Sony*, efforts were underway to repeal the first sale doctrine with respect to video rental. James Lardner, *Video Wars*, THE WASHINGTON POST, F1, May 2, 1982 ("A little-noticed section of the two royalty bills would abolish the first-sale doctrine for prerecorded videocassettes."), efforts which were occasionally renewed in other contexts. Seth Goldstein, *Picture This*, BILLBOARD, Jan. 14, 1995, at 47. Even today, major copyright holders are in tension over retailers' freedom to do with their copies as they please. Paul Sweeting, *Rental ruin?*, VIDEO BUSINESS, March 9, 2009, at 5 (reporting on the tension between 99-cent rentals at Redbox rental kiosks, and various studios' efforts to curtail it despite the first sale doctrine).

and that commercial rental practices have generally benefitted authors.[17]

4. Gifting would be at risk

Amici's members encourage purchases of copies and phonorecords as gifts. NARM, for example, sponsors the "Give the Gift of Music" campaign to encourage consumers to buy phonorecords for the sole purpose of redistributing them as gifts.[18] *Amici* doubt that copyright holders want to restrict gift purchases, but the Ninth Circuit's ruling means that consumers purchasing foreign-made copies or phonorecords would, by law, need either to ensure that their copy or phonorecord came with a "gift license" or to blaze new legal ground by establishing gift-giving of foreign-made copies and phonorecords as non-infringing fair use, 17 U.S.C. § 107. Such gifting would no longer be protected under § 109(a). Such a result makes clear how far the Ninth Circuit strayed in this case from Congress's intent and this Court's admonishment to "read literally" the "unambiguously" expressed text of § 109. *Quality King*, 523 U.S. at 145.

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[17] For a comparison between the private circulating libraries in England circa 1725-1850 and video rental stores in the United States circa 1980-1990, see Richard Roehl and Hal R. Varian, *Circulating Libraries and Video Rental Stores*, FIRST MONDAY, vol. 6, no. 5 (May 2001), *at* http://firstmonday.org/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/854/763.

[18] *See, e.g.*, *NARM, RIAA Refresh 'Give The Gift Of Music' Promotional Campaign*, June 10, 2010, *at* http://www.narm.com/news/narm-riaa-refresh-'give-the-gift-of-music'-promotional-campaign/.

The risk is not borne by consumers alone. It is quite common during the Christmas shopping season, as well as for other holidays such as Mother's Day, Father's Day, and Valentine's Day, for merchants to encourage giving copies and phonorecords of copyrighted works as gifts for their loved ones. To avoid any possible risk of liability for "inducing" infringement by customers, the Ninth Circuit's interpretation counsels that retailers limit such promotions to "domestically made copies and phonorecords only," despite the fact that the place of manufacture is frequently difficult if not impossible to determine.[19]

5. Consumer-direct sales of used copies and phonorecords could be affected

The Internet has increasingly blurred the lines between commercial sales of used copies and sales by average consumers. Ordinary consumers can also be retailers, thanks to many Internet-connected services, including services hosted by or used by *Amici*'s members, to offer second-hand copies and phonorecords for sale to the public. Until now, the first sale doctrine clearly protected the sale of such used goods, and the law concerned itself only with whether those copies were non-infringing. Under the Ninth Circuit's holding, however, sellers would need to determine whether the place of manufacture was on United States soil. In addition to informal transactions such

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[19] *See supra*, n.3, and accompanying text.

as yard sales, sophisticated web portals, such as eBay, Amazon.com, and Valorebooks, are now available for consumer-offered copies. But using such mechanisms makes consumers' actions visible to copyright holders. Indeed, several copyright holders already have filed lawsuits against individual sellers (or the services used by these sellers), attempting to prevent them from competing with the copyright holder's preferred retail price, and citing as support the Ninth Circuit's holding at issue in this case.[20] The

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[20] The actions of college textbook publishers alone provide a compelling example. *See, e.g., Pearson Education, Inc. v. Valore, Inc.*, No. 1:07-cv-01348-JG-JMA, *consent judgment* (E.D.N.Y. Dec. 17, 2007) (prohibiting Valore, operator of the valorebooks.com website, from allowing anyone to sell books "manufactured abroad and intended for sale abroad"); *Pearson Education, Inc. v. Liao*, No. 07-civ-2423 (SHS), 2008 U.S. Dist. LEXIS 39222 (S.D.N.Y. May 13, 2008) (ruling against a *pro se* defendant on an unopposed motion for summary judgment, and following the Ninth Circuit's interpretation *carte blanche*: "because a first sale defense only applies to the sale of copies that are 'lawfully made under this title,' 17 U.S.C. § 109(a), the resale in the United States of copies manufactured outside the United States is not protected under the terms of the statute," *id.* at *11); *Pearson Education, Inc. v. Liu*, 656 F. Supp. 2d 407 (S.D.N.Y. 2009), *interlocutory appeal petition pending*, No. 10-705 (2d Cir.) (lawsuit against a reseller of textbooks printed in China by the U.S. copyright holders). Although the *Liu* court rejected the Ninth Circuit's reasoning, it nevertheless relied on *dicta* from this Court's Opinion in *Quality King* to reach the same result. See *also* Defendant's Memorandum of Law in Support of Her Motion for Certification of an Order for Interlocutory Appeal under 28 U.S.C. § 1292(b), *Pearson Education, Inc. v. Liu*, Docket No. 26, 2008 Civ. 6152 (RJH) (Oct. 20, 2009), App. A (list of eleven cases pending in the U.S. District Court, S.D.N.Y., raising the identical issue).

Ninth Circuit's ruling will only embolden these lawsuits targeting ordinary consumers engaging in sales that should be protected under a proper interpretation of § 109(a).[21]

B. The Ninth Circuit's decision jeopardizes consumers' full use and enjoyment of their property that the first sale doctrine heretofore protected

1. Consumers would risk liability for common, every-day acts

When *Amici*'s customers purchase noninfringing copies, they rely on a longstanding expectation that ownership includes the right of alienation by any means they choose, such as a sale, trade, gift, bequest, or lending. Until recently, settled understanding and application of the first sale doctrine has protected such transfers without regard to whether the copyright owner's permission was necessary because of where the copy was made.

If ratified by this Court, the Ninth Circuit's ruling lays down a legal minefield for consumers, contrary to the settled and customary operation of the

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[21] The argument being made in those lawsuits would apply, as well, to a student seeking to sell or exchange used textbooks to help finance the next semester's purchases. The popularity of such an option is evidenced by the myriad services students can select from by searching "textbook exchange" in the web browser.

first sale doctrine. This would particularly be true in today's digital world, when, instead of informal private transactions unlikely to be noticed by the copyright holder, copy owners increasingly use more public, electronic marketplaces that leave a record of the offer of alienation.[22]

2. Consumers authorized to make reproductions would be penalized for doing so outside of the United States

There are an increasing number of ways in which consumers themselves make authorized copies and phonorecords. Most often, those reproductions are made onto a single tangible medium – such as a computer hard drive, a smartphone, or a portable media player – that contains many other works by myriad unrelated copyright owners. Music is reproduced ("ripped") from CDs onto such media under the protection of 17 U.S.C. § 1008. Some movie DVDs contain a "managed copy" feature allowing the purchaser to reproduce a compressed format movie

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[22] *See, e.g., Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008), *appeal pending*, No. 09-35969 (9th Cir.) (involving a nonninfringing copy of a work acquired at a yard sale, which came to the copyright owner's attention upon being re-sold on eBay (www.ebay.com); *see also* Amazon.com (http://www.amazonservices.com/content/sell-on-amazon.htm) (allowing copy owners, for a fee, to sell their books, CDs and DVDs); Craigslist (www.craigslist.org) (allowing copy owners to list their copies and phonorecords for sale (or free)).

file onto a computer or a more portable medium. And, every computer program that cannot be performed from the disc copy comes with statutory authority for the copy owner to reproduce the work onto the computer. 17 U.S.C. § 117. Finally, some of *Amici*'s members do not sell prerecorded copies or phonorecords at all, but instead offer "downloads" – licensed reproductions onto the customer's computer, portable media device, or smartphone.[21]

Under the Ninth Circuit's holding, if any such authorized reproductions are made while the device is outside of the United States, every U.S. copyright holder of every work so reproduced would enjoy a distribution right over the computer, portable media player or smartphone once it re-enters the country. (*See* Section III, *infra*.) Even if enforcement of the distribution right under such circumstances is improbable, it is a legal consequence of the Ninth Circuit's holding that is clearly untenable.

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[21] In addition, most computer users have grown accustomed to routinely reproducing more works onto their devices at the urging of the copyright holders, in the form of updates, patches, and drivers, by downloading directly from the copyright holder's Internet website at no additional charge.

II. THE DECISION BELOW UNDERMINES THE COMMON LAW DOCTRINE CONGRESS INTENDED TO CODIFY

Although this case has largely focused on the portion of the common law first sale doctrine codified in 17 U.S.C. § 109(a), the remainder of the codification of the first sale doctrine, now found in § 202, shares both statutory and common law roots with § 109 and the two sections should be read together.

Judicially recognized in the mid-1800s, and ultimately by this Court in 1908,[24] the initial codification of the first sale doctrine reflected that doctrine's breadth. Section 41 of the Copyright Act of 1909 provided:

> *The copyright is distinct from the property in the material object copyrighted*, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of title to the material object; but *nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.*[25]

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[24] *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

[25] Act of March 4, 1909, ch. 320, 35 Stat. 1075, 1084 (1909), effective July 1, 1909 (emphasis added). The text was unchanged when it was renumbered as § 27 by amendment, Pub. L. No. 80-281, 61 Stat. 652, 660 (1947).

Every subsequent codification of the first sale doctrine has been intended to follow rather than supplant the doctrine's separation of the copyright owner's rights from the copy owner's right.[26] As this dichotomy demonstrates, the first sale doctrine rests on broader principles than mere "first sale."[27] The Ninth Circuit's ruling annuls this longstanding dichotomy, upon which the entire first sale doctrine is based.

A. The Ninth Circuit's holding would nullify the § 202 copy/copyright distinction with respect to foreign-made copies

In keeping with the prefatory words of the original codification of the first sale doctrine in § 41 of

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[26] The present codification of the first sale doctrine divides the provisions of § 41 of the Copyright Act of 1909 into two sections. Section 109 of the current Act vests the transfer right with the "owner" of the copy (rather than merely the possessor), and § 202 repeats the copy/copyright distinction that prefaced the original codification.

[27] Despite its name, the "first sale doctrine" has not been dependent upon whether a "sale" occurs in any of its codifications. *See, e.g., UMG Recordings v. Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008) (first-sale doctrine applies to promotional copies given away by copyright owner), *appeal pending*, No. 08-55998 (9th Cir.). "[C]opyright law does not forbid an individual from renting or selling a copy of a copyrighted work which was lawfully obtained *or lawfully manufactured by that individual*." *United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991) (emphasis added) (quoting *United States v. Sachs*, 801 F.2d 839, 842 (6th Cir. 1986)).

the Copyright Act of 1909,[28] § 202 of the Copyright Act of 1976 provides, in part:

> Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.[29]

The Ninth Circuit's holding would, in effect, read this distinction out of the Copyright Act with respect to copies made abroad. Owners of non-infringing copies made domestically would enjoy a right of ownership in the tangible medium that is wholly distinct from the copyright owner's intangible copyright. In stark contrast, and contrary to the dichotomy set forth in § 202, owners of non-infringing copies made abroad would no longer enjoy such a distinct right of ownership in the tangible medium, as such ownership would be subject to the author's exclusive right to

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[28] The Committee on Patents explained: "Section 41 is not intended to change in any way existing law, but simply to recognize the distinction, long established, between the material object and the right to reproduce copies thereof." H.R. Rep. No. 2222, 60th Cong., 2d Sess., at 28-29 (1909).

[29] The Register of Copyrights, expressing her own views the following year, explained:

> All this section [202] really says is that copyright is one thing and the material object in which the work is embodied is another; that ownership of one is distinct from ownership of the other; that the transfer of ownership of one does not, in and of itself, transfer ownership of the other.

Marybeth Peters, *General Guide to the Copyright Act of 1976*, ch. 5, at 6 (Sept. 1977).

distribute the medium.[30] In legal terms, ownership is converted into a mere right of possession.

B. The Ninth Circuit's holding ignores the exhaustion principle upon which the first sale doctrine is based

The common law formulation of the first sale doctrine articulated by this Court in *Bobbs-Merrill*, and which Congress intended to codify, is akin to the "exhaustion" principle that has come to be universally recognized in international law.[31] The exhaustion principle provides that the copyright owner's right of distribution ends with transfer of ownership of the

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[30] The Third Circuit, in contrast, has embraced the distinction embodied in § 202:

> Section 109(a) is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material. *See* 17 U.S.C. § 202 (1982). The first sale doctrine prevents the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred. *See, e.g., Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908); *Independent News Co. v. Williams*, 293 F.2d 510, 515-17 (3d Cir. 1961).

Columbia Pictures Industries v. Redd Horne, 749 F.2d 154, 159-60 (3rd Cir. 1984).

[31] "'Exhaustion' is the term that is often used in international agreements to refer to the termination of a copyright owner's distribution right with respect to a particular copy after that copy has been sold with the copyright owner's authorization – *i.e.*, the first sale doctrine. The distribution right is said to 'exhaust' after the first sale." DMCA SECTION 104 REPORT, at 92 n.301, U.S. Copyright Office (August 2001).

copy. The Ninth Circuit's ruling is contrary to this universally accepted understanding of the first sale doctrine.

The common law approach is instructive here, because under that framework, the copyright owner enjoys the distribution right only with respect to the copies that it owns. Transfer of ownership exhausts the copyright owner's distribution right.[32] This rights-exhaustion approach is consistent with the legislative history of § 109. Indeed, Congress intended the right of distribution to be limited to the former right of "publication," as set forth in *Bobbs-Merrill*:

> Under this provision the copyright owner would have the right to control the first public distribution of an authorized copy or phonorecord of his work, whether by sale, gift, loan, or some rental or lease arrangement. Likewise, any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement. *As section 109 makes clear, however, the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.*

[32] "Section 109(a) restates and confirms the principle that where a copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means." S. Rep. No. 93-983 (1974).

H.R. Rep. No. 94-1476, at 62 (1976) (emphasis added).

The Ninth Circuit's position is contrary to both the common law and Congress' intent. The Ninth Circuit looked to the country in which a tangible medium of expression was converted into a "copy or phonorecord" by virtue of reproduction, rather than – as Congress intended – whether the reproduction was made by or with the consent of the owner of the exclusive right of reproduction, and whether the copy or phonorecord so reproduced was owned by someone other than the copyright owner. Under the common law first sale doctrine codified by Congress, and contrary to the Ninth Circuit's holding, authorized copies no longer owned by the copyright holder are not subject to the copyright holder's distribution right.

III. THE HOLDING BELOW VIOLATES THE TEACHING OF *SONY* BY EXTENDING COPYRIGHTS TO CONTROL CHATTEL OWNED BY OTHERS AND OVER DISTRIBUTION OF COPIES OF OTHER AUTHORS' WORKS

A fundamental basis for this Court's holding in *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984) was the principle that a copyright owner may not "enlarge the scope of [its] statutory monopolies to encompass control over an article of commerce that is not the subject of copyright protection," thereby expanding the copyright holders' control "beyond the limits of the grants authorized by Congress." *Id.* at

421. In *Sony*, the copyright holder sought to exert control over a VCR it did not own. This Court rejected that proposition. Likewise, this Court should reject the position – advanced by Omega and adopted by the Ninth Circuit – that would allow a copyright owner to control chattel in which it had never held title (such as a personal computer or a smartphone), simply because authorized copies were reproduced onto such media overseas.

As did the Ninth Circuit's reversed decision in *Sony*, the Ninth Circuit's decision in this case allows copyright holders to burden a tangible article of commerce capable of noninfringing uses.[33] This, despite that Congress has drawn a sharp distinction between ownership of the tangible object onto which a copyrighted work is reproduced[34] and ownership of

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[33] In *Sony*, the burden was in keeping the device capable of making noninfringing copies out of the market. In this case, the burden would attach only once the device becomes an authorized copy made abroad, but the impact would be more far-reaching: The Ninth Circuit's holding would allow an exclusive right of one author to burden works of others, because it would extend the right of distribution to include tangible media containing works authored by others (e.g., a computer hard drive with hundreds of lawfully made copies but just one copy made overseas, which, under the Ninth Circuit's ruling, would be subject to the distribution right of the copyright owner whose work was lawfully copied overseas).

[34] "Nothing in the statute limits the manner in which the making of the copy may be accomplished, so long as the resulting copy is lawful." DMCA SECTION 104 REPORT, at 23, U.S. Copyright Office (August 2001).

the intangible copyright (§ 202), and despite that Congress has specifically granted to owners of the tangible object the right to transfer those articles as they see fit (§ 109).

Like the consumers owning the Betamax VCRs at issue in *Sony*, consumers today own many devices in which the copyright holder has never held any ownership interest. Personal computers, electronic notepads, personal digital assistants, and "smart phone" cell telephones are sold to millions of consumers, with the expectation that a virtually unlimited number of works of authorship might be reproduced onto them. These may include photographs, text, audiovisual works, sound recordings and computer programs, either created by the owner of the device or reproduced onto the device with the permission of the copyright owner.

The Ninth Circuit's holding means that if even one such work is reproduced onto the device while the device is outside of the United States, the author or copyright holder in that work is suddenly empowered to determine whether the owner of the device may distribute the device to anyone else, even by mere lending. The rights of owners of copies lawfully made *in* the United States are abridged merely because the same tangible article that is protected by § 109(a) is, according to the Ninth Circuit, concurrently *not* protected by § 109(a) by virtue of having had another work reproduced onto it *outside* of the United

States.[35] This is precisely the sort of "control over an article of commerce that is not the subject of copyright protection" that the Court expressly rejected in reversing the Ninth Circuit in *Sony*. The Court should similarly reject the Ninth Circuit's flawed reasoning here.

IV. THE HOLDING BELOW THREATENS SETTLED FIRST AMENDMENT RIGHTS BY ALTERING THE TRADITIONAL CONTOURS OF COPYRIGHT PROTECTION

Although the statutory language and history are dispositive in favor of Petitioner's reading of § 109(a), to the extent there is ambiguity, the interpretative canon of constitutional avoidance requires reversal of the Ninth Circuit's interpretation of § 109(a).[36] The

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[35] The *Sony* teaching suggests that the device makers would not be contributorily liable for the distribution of copies and phonorecords that share the same tangible medium of expression yet are made, with the respective U.S. copyright holder's authority, both inside and outside of the United States. The shared tangible medium is "capable of substantial noninfringing uses," *Sony*, 464 U.S. at 442. Less clear is the question of primary liability on the part of the one who distributes such copies or phonorecords. Omega urges a reading that would concurrently entitle the owner of such a shared tangible medium to distribute it without one copyright owner's consent while committing copyright infringement with respect to another copyright owner's distribution right.

[36] The canon of constitutional avoidance "is an interpretive tool, counseling that ambiguous statutory language be construed to avoid serious constitutional doubts." *FCC v. Fox TV Stations, Inc.*, ___ U.S. ___, 129 S. Ct. 1800, 1811 (2009) (citing *Edward J.*

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Ninth Circuit's interpretation warrants First Amendment scrutiny because it threatens long-recognized First Amendment rights that have traditionally been unencumbered by exclusive rights. *See Eldred v. Ashcroft*, 537 U.S. 186 (2003). The interpretation urged by Petitioner Costco, in contrast, avoids the serious constitutional questions raised by the Ninth Circuit's interpretation of the statute.

The businesses of *Amici*'s members are at the heart of copyright law. Unlike the distribution of Omega brand watches and other general merchandise that is only incidentally a "copy" of a copyrighted work, distribution of copies of books, music, movies and video games by *Amici*'s members involves the "core of intended copyright protection," *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994). Indeed, as the Court recognized in *Quality King*, 523 U.S. 135, although the L'anza brand shampoo labels at issue in that case "have only a limited creative component," the Court's ruling "would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books." *Id.* at 140. The Ninth Circuit disregarded the implications of its ruling for the "core" focus of copyright protection. Instead, the Ninth Circuit narrowly (and erroneously)

DeBartolo Corp. v. Florida Gulf Coast Building & Constr. Trades Council, 485 U.S. 568, 575 (1988)). "It is therefore incumbent upon us to read the statute to eliminate those doubts so long as such a reading is not plainly contrary to the intent of Congress." *United States v. X-Citement Video*, 513 U.S. 64, 78 (1994).

examined the issues only from the perspective of a manufacturer's ability to leverage copyright law to enforce a global price discrimination strategy over common goods, ignoring the public policy interests that give rise to copyrights, and the fundamental First Amendment rights with which copyrights are balanced.

Nothing in the record suggests that the price of Omega watches increased by virtue of having been transformed into a "copy" of the copyrighted work. Rather, the entire value of the watch was in characteristics unrelated to copyright, such as the goodwill associated with the Omega brand, the materials, the craftsmanship, the functional accuracy, and the aesthetic value. The inability to distribute watches, as watches, in no way burdens First Amendment rights, nor thwarts the Copyright Act's constitutional purpose.

In clear contrast, in the case of books, movies, music and video games – the works that form the business of *Amici*'s members – the tangible medium of expression is only incidental to the constitutionally protected and copyrighted speech elements. The suppression of such speech – a direct result of the Ninth Circuit's interpretation of § 109(a) – burdens fundamental First Amendment rights and frustrates a core objective of the Copyright Act, which is to encourage broad dissemination of such creative works for the edification of the public. *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948).

This Court has recognized that "the First Amendment can limit Congress's power under the Copyright Clause." *Golan v. Gonzales*, 501 F.3d 1179, 1184 (10th Cir. 2007) (citing *Eldred*, 537 U.S. at 219-21 (2003)). In *Eldred*, this Court recognized the "free speech safeguards" built into copyright law, such as the idea/expression dichotomy and the fair use doctrine. As the *Golan* court explained:

> Although these built-in free speech safeguards will ordinarily insulate [copyright] legislation from First Amendment review, the *Eldred* Court indicated that such review is warranted when an act of Congress has "altered the traditional contours of copyright protection."

Golan, 501 F.3d at 1184 (citing *Eldred*, 537 U.S. at 221).

With respect to the first sale issue presented in this case, prior to the Copyright Act of 1976, the traditional contours of copyright protection never gave a copyright owner control over the distribution of non-infringing copies it did not own. *See, e.g., Bobbs-Merrill*, 210 U.S. 339; *Harrison v. Maynard, Merrill & Co.*, 61 F. 689 (2d Cir. 1894); and the earlier cases cited therein.[37] To the contrary, distribution of a

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[37] Modern copyright owners should fare no better than Mark Twain (Samuel Clemens) did in 1885, when he attempted to enjoin a retailer from selling copies of HUCKLEBERRY FINN below the minimum retail price Clemens and his dealers had agreed on (before several of them sold them, at a discount, to the

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copy by the copyright owner has always been understood to exhaust the distribution right, whether under common law or any of the codifications of the first sale doctrine since 1909. The amendments made by the Copyright Act of 1976 caused no change whatsoever in the distribution practices prevalent among the copyright holders supplying *Amici*'s products, despite the historic inclination, by some, to want to control secondary distributions.[38] Not one case dating back to the mid-1800s countenanced a more favorable outcome for the copyright owner who prints abroad. The opposite was true.[39] There is also a

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retailer). The Court held that his remedy was for breach of contract against the dealers, and not copyright infringement against the retailer. *Clemens v. Estes*, 22 Fed. 899 (C.C.D. Mass. 1885).

[38] This inclination was manifest during the development of the Copyright Act of 1976. "The proposal that royalties be imposed on the large-scale commercial resale of used copies of textbooks and other works received no support" and ran counter to the first sale doctrine embodied in the unopposed § 109(a). The Register of Copyrights on the General Revision of the U.S. Copyright Law 1975 Revision Bill, October-December 1975 *(Draft) Second Supplementary Report*, ch. II, at 55.

[39] For example, the Copyright Act of 1909 took note of the place of manufacture for the *opposite* purpose: Rather than reward U.S. copyright holders who manufacture copies abroad, § 107 of the Copyright Act of 1909 prohibited U.S. copyright holders from importing into the United States "any copies thereof (although authorized by the author or proprietor) which have not been produced in accordance with the manufacturing provisions specified in section 16." (With few exceptions, § 16 required that the reproduction work be performed in the United States if the text was in English.) The Committee Report explained that the aim was the "protection of the men engaged

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long history of treating the rights in the tangible copy as distinct from the copyright, of favoring the freedom to alienate personal property, and of exhausting the right to distribute copies once title to the copy has passed.

Thus, although the statutory text and history clearly refute the Ninth Circuit's reading of § 109(a), the Ninth Circuit's reading is also impermissible under the interpretative canon of constitutional avoidance. Even assuming that § 109(a) were ambiguous with respect to goods made abroad by or under the authority of the U.S. copyright-holder, which it is not, the Ninth Circuit should have adopted Petitioner's reading of that provision, in light of the serious First Amendment questions presented by a contrary reading.

The Ninth Circuit's interpretation of § 109(a) alters the traditional contours of copyright protection and therefore raises serious First Amendment concerns under *Eldred* and similar cases. Under the canon of constitutional avoidance, the Ninth Circuit should have adopted Petitioner's interpretation of § 109(a), as that interpretation is much more consistent with these historical contours and would therefore avoid burdening the First Amendment

in the work of setting type, making plates, printing and binding." H R Rep No 2222, 60th Cong., 2d Sess., at 18 (1909). The House Report was also adopted by the Senate, S. Rep. No. 1108, 60th Cong., 2d Sess. (1909).

rights both of owners of authorized copies and phonorecords and of other authors whose works reside on the same medium as authorized copies and phonorecords made abroad.

Because a regulation favoring offshore manufacturing of copies of U.S. copyrighted works is content neutral, intermediate scrutiny would be appropriate.

> A content-neutral regulation [of speech] will be sustained under the First Amendment if it advances important governmental interests unrelated to the suppression of free speech and does not burden substantially more speech than necessary to further those interests.

Turner Broad. Sys., Inc. v. F.C.C., 520 U.S. 180, 189 (1997). In order to show that the Ninth Circuit's interpretation raises serious constitutional questions, the analysis need not proceed further than whether the regulation advances an important governmental interest. Nothing in the record or the legislative history shows the advancement of any governmental interest by granting to U.S. copyright holders a right to prohibit people who own non-infringing copies of their works from selling, lending, or gifting those copies, merely because the U.S. copyright owner authorized reproduction abroad, or because the consumer happened to be abroad when making an

authorized reproduction.[40] Assuming that one could posit such a governmental interest, creating an incentive to export manufacturing jobs while cutting off access to secondary markets for authorized copies and phonorecords would certainly not rise to the level of an important interest required under intermediate scrutiny.

Even under ordinary copyright principles, this Court has recognized the importance of carefully demarcating the boundaries between the reach of the copyright and the wealth of activity beyond that reach.

> Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible.

Fogerty v. Fantasy, Inc., 510 U.S. 517, 527 (1994). In demarcating those boundaries, the rights of owners of copies and phonorecords must also be weighed, precisely because the Copyright Act itself gives

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[40] The Register of Copyrights has even placed the right to destroy one's own copies under the umbrella of § 109(a) protection. Supplementary Register's Report on the General Revision of the U.S. Copyright Law (1965), ch. 2, at 29.

owners of lawfully made copies rights separate from and superior to those of the copyright owners.[41]

Amici's argument is not that the 1976 Act itself injected a flaw of constitutional dimensions. Rather, the Ninth Circuit, in misinterpreting the Act, made a radical departure from over 150 years of judicial and legislative history in which the place of manufacture authorized by the U.S. copyright holder had no bearing on the U.S. copyright holder's rights.[42] Given that long and unbroken history in which both custom and law honored an exhaustion of the distribution right once title passed to another, coupled with the legislative history of the 1976 Act asserting no intent to change that history, the Ninth Circuit's interpretation would radically alter the contours of copyright regulation in a manner that dramatically burdens freedom of speech without promoting any countervailing governmental interest. Accordingly, at the very least, the Ninth Circuit should have rejected

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[41] *See, e.g.*, *Sony*, 464 U.S. at 447 ("[T]he definition of exclusive rights in § 106 . . . is prefaced by the words 'subject to sections 107 through [122].'"); accord H.R. Rep. No. 94-1476, at 61 (1976) ("[E]verything in section 106 is made 'subject to sections 107 through [122]' and must be read in conjunction with those provisions.").

[42] There was a period of time during which the foreign manufacture of English language copies served to completely *deny* copyright as a penalty for offshore printing. *See* Copyright Act of 1909, § 15, and prohibit their importation, *id.* at § 16. *See, supra*, n.39. Congress has never set out to purposely enlarge copyright protection as the reward for foreign manufacturing.

its chosen interpretation based on the serious constitutional questions presented by that reading of § 109(a).

CONCLUSION

Because the Ninth Circuit's ruling below is so irreconcilable with the first sale doctrine's purpose, roots, and longstanding application; so likely to create recurrent chaos in the marketplace; and so contrary to the traditional contours of copyright protection as to burden First Amendment protections without any countervailing government interest, this Court should reverse the judgment below.

Respectfully submitted,

KATHLEEN HARTNETT
SPIVA & HARTNETT LLP
1776 Massachusetts Ave., NW
Suite 600
Washington, DC 20036
(202) 785-0601

JOHN T. MITCHELL
Counsel of Record
INTERACTION LAW
1629 K Street, NW
Suite 300
Washington, DC 20006
(202) 415-9213
john@interactionlaw.com

AMICUS CURIAE BRIEF

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Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF FUJIFILM CORPORATION, SEIKO EPSON CORPORATION, EPSON AMERICA, INC. AND EPSON PORTLAND INC. AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

LAWRENCE ROSENTHAL
Counsel of Record
MATTHEW W. SIEGAL
ANGIE M. HANKINS
STROOCK & STROOCK & LAVAN LLP
180 Maiden Lane
New York, New York 10038
(212) 806-5400
lrosenthal@stroock.com

Counsel for Amici Curiae

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INTEREST OF *AMICI CURIAE*[1]

The issue in this case is whether the Copyright Act's first sale doctrine, which is codified at 17 U.S.C. §109(a), applies to goods that were both manufactured and sold abroad by the owner of the U.S. copyright and imported subsequently without its authorization.

Amicus Intel Corporation ("Intel"), while paying lip service to the issue before this Court, devotes the great bulk of its brief to the assertion that this Court should draw guidance from the way U.S. patent rights are exhausted by a U.S. patent owner's first sale of a patented product under the U.S. patent laws. More significantly, Intel incorrectly argues that *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 128 S.Ct. 617 (2008), addressed the issue of whether a foreign sale, which would not infringe a U.S. patent, can nevertheless exhaust a U.S. patent that was not implicated in any way by the foreign sale. In so doing, Intel is improperly attempting to convert the instant case, which involves statutory construction of provisions of the Copyright Act, into a back-door treatment of an issue not even raised by Petitioner Costco Wholesale Corp. ("Costco"), the scope and applicability of a court-developed doctrine not codified in the U.S. patent laws (the patent first sale doctrine). *Amicus* American

1. Pursuant to Supreme Court Rule 37.3(a), all parties have submitted letters of consent to the filing of this brief to the Clerk. Pursuant to Supreme Court Rule 37.6, this brief was not authored, in whole or in part, by counsel for a party, and no person other than the *amici curiae*, or its counsel, made a monetary contribution intended to fund its preparation or submission.

Intellectual Property Law Association ("AIPLA"), while devoting most of its brief to the Copyright Act construction issue, makes a similar argument. AIPLA Br. at 36-38.

FUJIFILM Corporation ("Fujifilm") is the world's largest photographic and imaging company. Fujifilm operates the imaging and information businesses previously operated by Fuji Photo Film Co., Ltd., founded in 1934. Fujifilm's products and industries include cameras, film, electronic imaging, photofinishing equipment, medical systems, life sciences, graphic arts, flat panel display materials, and office products. Fujifilm or its predecessor was the successful plaintiff in *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F3d 1994 (Fed. Cir. 2001), cert. denied, 536 U.S. 950 (2002) ("*Jazz v. ITC*"), *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F3d 1368 (Fed. Cir. 2005) ("*Fuji v. Jazz*") and *Fujifilm Corp. v. Benun*, 605 F3d 1366 (Fed. Cir. 2010) (per curiam) ("*Fujifilm v. Benun*"), which *Intel* alleges were all overruled *sub silencio* by this Court's decision in *Quanta*. Fujifilm has a substantial interest in maintaining those cases in force.

Fujifilm was among the top twenty five companies around the world in obtaining U.S. patents in 2009, and has a substantial portfolio of copyrighted works. Fujifilm manufactures and sells products covered by its U.S. patents and copyrights in the United States. Fujifilm also has manufacturing facilities and sales outside the United States.

Seiko Epson Corporation is a global innovation leader that invents, manufactures and sells a wide array

of consumer, commercial, and industrial products. Its high-precision technology products include inkjet printers, LCD monitors, semiconductors, and factory automation robots. In 2009 alone, the United States Patent and Trademark Office granted over 1,300 U.S. patents to Seiko Epson Corporation. Epson America, Inc. and Epson Portland Inc. are the exclusive licensees of the rights to distribute and manufacture, respectively, under some of those U.S. patents. [2]

Like *Amicus* Fujifilm, Epson manufactures and sells products covered by its U.S. patents both inside and outside of the United States. As a leading technology innovator, Epson has a strong interest in ensuring that its rights under its U.S. patents are given full effect, and Epson has vigorously enforced its intellectual property rights in federal courts and the United States International Trade Commission to do so. As a global company participating in international markets, Epson joins this *Amicus* brief to urge that this Court reject Intel's invitation to address common law patent issues when no such issue is before it.

As companies built on innovation, *amici* Fujifilm and Epson have an interest that the Constitution's requirement that the laws of this country "promote the progress of science and useful arts," (Art. I Sect. 8, cl. 8), be given its full effect, and that U.S. copyright and patent owners be permitted to both enjoy the constitutionally based benefits of those patents and copyrights in the United States, while also selling goods

2. *Amici* Seiko Epson Corporation, Epson America, Inc., and Epson Portland Inc. are referred to herein as "Epson."

in foreign markets, where those U.S. copyrights and patents have no impact.

Accordingly, *amici* Fujifilm and Epson's interest is also to ensure that this Court resolve the copyright issue presented, which is whether the making and selling of a copyrighted work overseas by the owner of the United States copyright is nevertheless, "lawfully made under [Title 17]" and is therefore covered by Section 109(a)'s exception to the general ban on unauthorized importation.

SUMMARY OF ARGUMENT

This Court rejected resort to patent law in resolving a copyright first sale doctrine issue in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345-46 (1908). The question before this Court is *not* whether *Quanta* overruled the Federal Circuit's patent first sale doctrine, stated and applied in *Jazz v. ITC*, *Fuji v. Jazz* and *Fujifilm v. Benun*. Accordingly, this Court's decision should not include any *dicta* regarding the state of the law of foreign exhaustion of patents, because that issue is not before it. It is both improper and inequitable for Intel to ask this Court to expressly overrule these cases, which span nine years of jurisprudence, in a case where neither it nor Fujifilm is a party and the patent first sale doctrine was neither argued nor considered below.

Nonetheless, this Court's decision in *Quanta* did not decide the issue of patent exhaustion resulting from sales outside the United States. Therefore, the law of patent exhaustion resulting from foreign sales is governed by *Boesch v. Graff*, 133 U.S. 697 (1890), *Keeler*

v. Standard Folding Bed Co., 157 U.S. 659 (1895), *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), *Fujifilm v. Benun*, *Fuji v. Jazz*, *Jazz v. ITC* and other cases discussed herein. These cases confirm that when a sale takes place outside the United States and the patent owner has not authorized importation into the U.S., the sale does not exhaust any U.S. patents, even when the seller is the owner of that U.S. patent, because that seller obtained no royalty and derived no benefit from his or her U.S. patent. Accordingly, if it were appropriate to use the U.S. patent laws for guidance, then that guidance would dictate that when copies of copyrighted works are made and sold outside the United States and the U.S. copyright holder has not obtained any benefit from his or her U.S. copyright when the copies were made and sold, then the U.S. copyright holder has not exhausted their U.S. copyright, and the importation of such works is an infringement of the U.S. copyright.

The copyright first sale doctrine's reference to "lawfully made under this title," as stated in Section 109(a) (17 U.S.C. § 109(a)), plainly means that only the owner of a particular copy or phonorecord made in the United States may sell or otherwise dispose of the possession of that copy or phonorecord in the United States, unless the copyright owner authorizes the sale or distribution in the United States or one of the exceptions set forth in 17 U.S.C. § 602(a)(3) applies. This interpretation is consistent with former Section 602(a) (now Section 602(a)(1), 17 U.S.C. § 602(a)(1)), and *Quality King Distributors, Inc. v. Lanza Research Int'l*, 523 U.S. 135, 145 (1998).

ARGUMENT

I. PATENT EXHAUSTION SHOULD NOT BE CONSIDERED BY THE COURT

A. The Patent Exhaustion Question Raised By *Amicus* Intel Is Not "Fairly Included" In The Question Presented

Supreme Court Rule 14.1(a) states that the Court will consider "[o]nly the questions set out in the petition, or fairly included therein . . . ." Supreme Court Rule 14.1(a). *Amicus* Intel raises a patent exhaustion question that is neither the question presented nor "fairly included therein," and therefore should not be reviewed by this Court.

In the present matter, the question presented is limited to the Copyright Act's first sale doctrine, codified as 17 U.S.C. § 109(a). As set forth in Costco's Brief, the question presented on certiorari is:

> Under the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), the owner of a copy "lawfully made under this title" may resell that copy without the authority of the copyright holder. In *Quality King Distribs., Inc. v. Lanza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998), this Court held that "the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." In the decision below, the Ninth Circuit held that *Quality King* is limited to its facts, which involved goods manufactured in the United States, sold

> abroad, and then re-imported. The question presented here is:
>
> > Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

While Costco cites *Quanta* twice, it never advances the argument that *Quanta* dictates the result in this case argued by Intel. Costco Br. at 4, 47, n.23. The most that Costco argues is that: "Analogous concerns are present here."

Despite this narrow question presented, *Amicus* Intel improperly urges the Court to consider an unrelated and unpresented question relating to patent exhaustion. Intel's patent exhaustion question is clearly neither the question presented nor "fairly included therein."

In *Yee v. City of Escondido*, this Court explained its approach in determining whether a question is "fairly included" in the question presented. 503 U.S. 519, 537 (1992). In performing its analysis, this Court considered whether either question was subsidiary to the other by examining whether the questions exist "side by side," or encompass each other. *Id.* In *Yee*, the question presented was "[d]id the court below err in finding no physical taking?" *Id.* The petitioners argued the Court should also determine whether a regulatory taking occurred. This Court found that while whether a regulatory taking occurred was perhaps "*complementary*," it was not fairly included because:

> Consideration of whether a regulatory taking occurred would not assist in resolving whether a physical taking occurred as well: neither of the two questions is subsidiary to the other. Both might be subsidiary to a question embracing both –Was there a taking? – but they exist side by side, neither encompassing the other.

Id. (citations omitted).

Similarly here, although copyright exhaustion and patent exhaustion may be subsidiary to a question embracing both — *e.g.*: Was there exhaustion where both a patent and a copyright covered the product at issue? -- they certainly are not subsidiary to each other in a case where a patent is not involved.

While Intel's issue of patent exhaustion, in theory and in an appropriate case, may exist side-by-side with copyright exhaustion, it is not subsidiary to, nor encompassed by, the copyright question presented here. The question presented on *certiorari* is limited to statutory interpretation of the Copyright Act. However, Intel's unpresented question concerns a separate and distinct body of law, i.e., patent law. This Court has made it clear that questions of patent law and copyright law are generally not subsidiary to each other:

> There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which

> relate to the one subject are not altogether controlling as to the other.

Bobbs-Merrill, 210 U.S. at 346 (quoting *John D. Park & Sons Co. v. Hartman*, 153 Fed. 24, 28 (6th Cir. 1907)).

It is telling that *Bobbs-Merrill* involved the issue of whether there was a first sale doctrine in copyrights, a question that this Court answered by statutory construction. 210 U.S. at 346. Specifically, neither the patent nor copyright first sale doctrine question is subsidiary to the other, i.e., interpretation of the patent first sale doctrine is not necessary to address the question presented regarding the first sale doctrine with respect to copyrights, and *vice-versa*. Thus, Intel's patent exhaustion question is not subsidiary to the question presented, and is therefore not "fairly included therein."

Furthermore, Intel argues that its unpresented patent exhaustion question exists "side-by-side" with the copyright question presented. Intel argues that "The First-Sale Doctrine In The Patent Context Provides Helpful Guidance For This Court In Interpreting The ***Parallel*** Doctrine For Copyrights." Intel Br. at 4 (emphasis added). The very definition of "parallel" implies a "side-by-side" existence. In declining to address the unpresented question in *Yee*, this Court found that a question that was "*related* to the one petitioners presented, and perhaps *complementary* to the one petitioners presented" was not "fairly included therein." *Yee*, 503 U.S. at 537 (emphasis in original). Similarly, although Intel's unpresented patent first sale question may arguably (although *amici* Fujifilm and

Epson contend it is not) be "related" or "complementary" to the copyright question presented, it is clearly not "fairly included therein," and therefore should not be addressed by this Court.

Equally important is that Intel ignores the admonition in *Bobbs-Merrill* that:

> If we were to follow the course taken in the argument [of appellant] and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that that character shall be presented to this court.

210 U.S. at 345. Intel would have this Court not merely "embarrass" the consideration of the patent first sale doctrine as repeatedly stated by the Federal Circuit over a nine-year period, that patent exhaustion requires an authorized first sale in the United States. *Fujifilm v. Benun*, 605 F3d at 1371 (expressly considering the effect of *Quanta*); *Fuji v. Jazz*, 394 F3d at 1376; *Jazz v. ITC*, 264 F3d at 1105. Intel would have this court, by *dicta*, overrule the Fujifilm line of Federal Circuit cases, which were not at issue in *Quanta*, without full exploration of the issue below and in the absence of Fujifilm as a party.

B. This Court Should Not Disregard Its Rule 14.1(a)

Supreme Court Rule 14.1 (a) creates a heavy presumption against consideration of questions not properly before the Court. The present matter is not an exceptional case that merits disregarding Rule 14.1(a). *Id.* As noted above, Rule 14.1(a) states that the Court will consider "[o]nly the questions set out in the petition, or fairly included therein . . . ." Supreme Court Rule 14.1(a). This Court has explained that although this "rule is prudential in nature," it is to be disregarded "'only in the most exceptional cases,' where reasons of urgency or of economy suggest the need to address the unpresented question in the case under consideration." *Yee*, 503 U.S. at 535 (quoting *Stone v. Powell*, 428 U.S. 465, 481, n.15 (1976)). The instant action is clearly not such an "exceptional case."

There are no reasons of urgency or economy that would suggest a need for this Court to address the unpresented question regarding the patent first sale doctrine raised by *amicus* Intel. As this Court also pointed out in *Yee*, prudence dictates awaiting a case in which the issue was fully litigated below, so that the Court will have the benefit of developed arguments on both sides and the lower court opinion squarely addressing the question. *Yee*, 503 U.S. at 535-36. Neither party has briefed this question or asked the Court to address this unpresented question. Furthermore, Intel has not set forth any arguments detailing why the present matter is an "exceptional case" that warrants consideration of an unpresented question. There is nothing exceptional about the instant matter, and the

Court should not review any questions beyond the question presented by Costco.

Further, review of this unpresented patent first sale doctrine question would be a waste of this Court's resources. This Court has explained that a purpose of Rule 14.1(a) is to ensure that the Court's resources are used "most efficiently" by discouraging parties from wasting "briefing space and argument time with discussion of issues other than the one on which certiorari was granted" so that the parties can "focus on the questions the Court has viewed as particularly important . . . ." *Yee*, 503 U.S. at 536. This Court also has noted that Rule 14.1(a) serves to "inform those who seek review here that we continue to strongly 'disapprove of the practice of smuggling additional questions into a case after we grant certiorari.'" *Izumi Seimitsu Kogyo Kabushiki Kaisha v. U.S. Philips Corp.*, 510 U.S. 27, 34 (1993) (quoting *Irvine v. California*, 347 U.S. 128, 129 (1954)). In its *Amicus* brief, Intel attempts to "smuggle" the patent first sale issue and whether it was decided by *Quanta* into this appeal. This Court has granted certiorari solely on the question regarding the copyright law's first sale doctrine, and the Court should not waste its resources addressing the unrelated and unpresented patent first sale doctrine questions raised by *amicus* Intel.

Finally, it has been the routine practice of this Court not to consider unpresented questions raised by an *amicus*. *See, e.g., Lopez v. Davis*, 531 U.S. 230, 244 n.6 (2001) (declining to address a matter urged by *amici* because it was "not raised or decided below, or presented in the petition for certiorari."); *United Parcel*

Service, Inc. v. Mitchell, 451 U.S. 56, 61 n.2 (1981) (declining to consider an argument raised by an *amicus* "since it was not raised by either of the parties here or below."); *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 25 n.2 (1991) (declining to address a question raised by several *amici* because it was not raised in the courts below, and was not among the questions presented). In the rare instances that this Court has considered unpresented questions raised by an *amicus*, there were factors that justified disregarding Rule 14.1(a). For example, in *Teague v. Lane*, this Court considered an unpresented question of retroactivity raised only by an *amicus* because it was "not foreign to the parties, who have addressed retroactivity with respect to petitioner's Batson claim." 489 U.S. 288, 300 (1989). Additionally, in *Capital Cities Cable, Inc. v. Crisp*, the Court considered an unpresented question raised by an *amicus* because it "was plainly raised in petitioners' complaint, it was acknowledged by both the District Court and the Court of Appeals, the District Court made findings on all factual issues necessary to resolve this question, and the parties have briefed and argued the question pursuant to our order." 467 U.S. 691, 697-98 (1984). Here, no such special circumstances exist to warrant disregarding Rule 14.1(a).

II. THE STATE OF THE LAW OF FOREIGN EXHAUSTION

Even if the Court decides to use patent exhaustion in determining whether the copyright first sale doctrine applies to copies that were both made and sold abroad, U.S. patent law would mandate a finding that the

copyright owner's right has not been exhausted by a first sale outside the United States.

A. The Symmetry Between Exhaustion And Infringement

There is a necessary symmetry to many aspects of the patent law. That which infringes if later, anticipates if before.[3] Insignificant differences between an accused product and a literal patent claim do not prevent the product from infringing under the doctrine of equivalents[4] and insignificant differences between a prior art reference and a claim do not prevent the prior art from invalidating the claim under the doctrine of obviousness.[5] A sale that infringes a patent, if sold by one unauthorized by the patent owner, exhausts the patent if sold by one authorized by the patent owner.[6] A sale that causes contributory infringement (because the product has no substantial noninfringing use) of a patent if unauthorized by the patent owner, exhausts the patent if sold by one authorized. *Quanta*, 128 S.Ct. at 2116-7, 2119.

The symmetry implicit in this Court's holding in *Quanta*, that sales that would cause contributory infringement if unauthorized, exhaust patent rights if authorized, confirms why foreign sales by the U.S.

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3. *Peters v. Active Mfg. Co.*, 129 U.S. 530, 537 (1889).

4. *Voda v. Cordis Corp.*, 536 F.3d 1311, 1326 (Fed. Cir. 2008).

5. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 401-02 (2007)

6. *Jazz v. ITC*, 264 F.3d at 1105.

patent owner do not exhaust U.S. patent rights. Section 271(c) of the U.S. Patent Law establishes that for a sale to be a contributory infringement, that sale must occur in the United States:

> Whoever offers to sell or sells **within the United States** or imports **into the United States** a component of a patented machine . . . . knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c) (emphasis added). Therefore, because sales outside the United States of a non-staple component of a patented product do not infringe U.S. patents, they cannot exhaust U.S. patent rights if importation into the U.S. is not authorized by the patent owner.

In accordance with the foregoing, it clearly follows: sale of a product that does not infringe a U.S. patent because the sale occurred outside of the United States, does not exhaust the U.S. patent even if sold by one authorized by the U.S. patent owner, unless the patent owner also authorized resale of that product in the United States. A foreign sale does not confer the U.S. patent owner with any benefit, such as a royalty, monopoly profit or otherwise under his U.S. patent. A U.S. patent owner cannot use its U.S. patent to enjoy the exclusive right to its invention in foreign markets. The owner cannot exact royalties from its competitors

on foreign sales that would have infringed the U.S. patent if sold in the United States, unless it owns a patent in that foreign market. Accordingly, there is no basis for holding that a foreign sale by the U.S. patent owner exhausted his or her patent rights.

B. Only Authorized Sales In Or To The U.S. Exhaust A U.S. Patent Because Only Such Authorized Sales Provide A Benefit To The U.S. Patent Owner

This Court has never held that a foreign sale, authorized by the U.S. patent owner, exhausts the U.S. patent if resale in the U.S. is not also authorized. The law in this country has always been that the patent laws are not extraterritorial. *E.g. Microsoft*, 550 U.S. at 454-55. Moreover, three times, over nine years, the Federal Circuit has confirmed that foreign sales of a product under the authority of the U.S. patent owner do not exhaust a U.S. patent, absent the patent owner authorizing the importation of the patented article.[7] *Fujifilm v. Benun*, 605 F.3d at 1371; *Fuji v. Jazz*, 394 F.3d at 1376; *Jazz v. ITC*, 264 F.3d at 1105. These rulings unequivocally state that U.S. patent rights are only exhausted when the patentee (or its authorized licensee) sells or authorizes the sale of the patented article in the United States. They explain that the patent owner

7. This is the patent first sale rule that Intel would have this Court overrule by *dicta*. Intel improperly equates this patent first sale rule with "patent exhaustion." Intel Br. 3. In fact, this patent first sale rule defines a circumstance where exhaustion of a U.S. patent does **not** occur. There is no dispute that an authorized sale of a patented product in the United States does exhaust the patent as to that specific product.

derives a benefit from their U.S. patent rights only by virtue of such authorized U.S. sale and that an unauthorized sale of the product in the U.S. is an infringement of the U.S. patent. The first sale doctrine remains the controlling rule of law to be applied in patent cases and this doctrine was not affected by the holding in *Quanta*.

Intel's Brief confirms that the basis for patent exhaustion is the benefit derived from the U.S. patent. Intel Br. at 8. Intel explains that under *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942), patent exhaustion results "once [the patent owner] has been compensated for its United States patent rights." *Id.* Clearly, the sale of a patented product by the patent owner in the United States permits the patent owner to be compensated by charging higher prices due to the lack of competition or to receive a royalty from a licensee. However, when the owner of a U.S. patent sells a product overseas, it is in no way compensated for its U.S. patent. The U.S. patent owner must compete head-to-head with its competitors and it cannot charge higher prices as a benefit of its U.S. patent. It is manifestly unfair to permit a foreign purchaser, who bought products at a low price because the U.S. patent owner had no benefit of his U.S. patent, to resell the products in the United States with no concern for the U.S. patent.

The cases of this Court are consistent that while a U.S. patent owner is entitled to but one benefit from their U.S. patent, it is nevertheless entitled to that one benefit. *See, e.g. Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863); *United States v. Masonite Corp.*, 316

U.S. at 278; *Boesch*, 133 U.S. at 702-703; *Keeler*, 157 U.S. at 664-65; *Microsoft*, 550 U.S. at 454-56.

> Our decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article . . . . Whether the licensee sells the patented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it, he has . . . . parted with his patent monopoly in either case, and has received in the purchase price every benefit of that monopoly which the patent law secures to him.

United States v. Univis Lens Co., 316 U.S. 241, 251-52 (1942).

When the U.S. patent owner sells a product covered by its own U.S. patent in the United States, it obtains no royalty, but derives the benefit of monopoly pricing from the lack of competition from unlicensed infringing products. *See Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 434, 450 (D.N.J. 2003). Granting the patentee the right to a benefit, such as obtaining royalties or monopoly profits from restricted competition, is what the Constitution refers to as "promot[ing] the progress of science and useful arts," Art. I, Sect. 8, Cl. 8.

A U.S. patent owner derives no benefit from its U.S. patent when it competes in foreign markets. "United

States patent laws 'do not, and were not intended to, operate beyond the limits of the United States[.]" *Fuji v. Jazz*, 394 F.3d at 1376 (quoting *Int'l Rectifier Corp. v. Samsung Elecs. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004) and *Brown v. Duchesne*, 60 U.S 183, 195 (1856)). **"[F]oreign sales can never occur under a United States patent."** *Fuji v. Jazz*, 394 F.3d at 1376 (emphasis added).

This Court has confirmed that foreign sales do not occur "under" a U.S. patent, given that U.S. patent rights generally do not apply extraterritorially. For example, in *Microsoft*, 550 U.S. at 441 and in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972), the Supreme Court recognized that U.S. patents are not infringed when operations covered by a U.S. patent occur outside U.S. borders. *See also, Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000). For this reason, foreign sales are not benefitted by U.S. patents and therefore, do not exhaust U.S. patent rights.

A foreign first sale, even if by the patent owner or its licensee, does not involve the exercise of any rights under a U.S. patent. Even if the overseas seller possessed the power to sell the product or non-staple component in the United States, the foreign sale would not be an "authorized sale" within the meaning of the patent-exhaustion doctrine unless the foreign first sale was coupled with the patent owner's authorization to sell the patented product in the United States. See *Fuji v. Jazz*, 394 F.3d at 1376.

Interestingly, Intel's explanation of the holding in *Boesch* (Intel Br. at 8-9) (relied upon by the Federal Circuit in *Jazz v. ITC*, 264 F.3d at 1105, when it first stated the patent first sale doctrine), establishes exactly why foreign sales outside the reach of the U.S. patent laws do not exhaust U.S. patent rights. Intel explains that in *Boesch*, there was no exhaustion because the U.S. patent owner had never received any benefit from the use of the patented product outside the United States. *Accord, Keeler*, 157 U.S. at 665. As this Court explained in *Keeler*, "neither the patentee [in *Boesch*] nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States" and therefore, the foreign sale did not exhaust the U.S. patent rights. *Id.* Thus, in *Keeler*, this Court confirmed that "no article can be unfettered from the claim of [the patentee's] monopoly without paying its tribute."[8] *Id.* at 666-67. Accordingly, it is well settled that enjoying the benefit of a U.S. patent, whether by a royalty or the ability to raise prices because there is no unlicensed competition, is what leads to patent exhaustion, not mere revenue from sales that were in no way benefitted by the U.S. patent.

Intel agrees that patent exhaustion is based on the theory that while a patent owner is entitled to a benefit from his or her patent, the owner is only entitled to one benefit per product sold under that patent, without

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8. In *Keeler*, the patent defendant purchased wardrobe bedsteads from the patent owner in one state and sold them in another where the rights were held by a third party. Nonetheless, the sale exhausted the patent rights in the entire United States.

regard to where the sale takes place. Intel implies that a patent owner does obtain a benefit under its U.S. patent when the owner sells a patented product overseas. However, Intel has not explained how the patent owner benefits from that foreign sale any more than if it had no U.S. patent. For example, when a patent owner with only U.S. and European patents makes a product in China and sells it in Japan, the owner competes with every other manufacturer for that Japanese sale. Having the U.S. patent does nothing to restrict the patent owner's competition in Japan. The U.S. patent owner cannot charge patent monopoly prices in Japan, nor can it demand royalties from the Chinese sales of its competitors. It can charge patent monopoly prices in Europe where it has a patent and demand royalties on sales there, but that is a result of the European patent laws, not the U.S. patent. Rather, the U.S. patent owner obtains no benefit under its U.S. patent for its foreign sales.

Intel contends that this Court's decision in *Boesch* is instructive, but would have this Court draw an unsupported conclusion that is not found anywhere in that decision. Intel correctly states the issue in *Boesch*:

> whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent.

Intel Br. at 9 (*quoting Boesch*, 133 U.S. at 702 (Intel's emphasis omitted)). This Court in *Boesch* held that because the importer did not have any license or consent from the owners of the U.S. patent, the importation was an infringement of the U.S. Patent.

As Intel suggests, a basis for that holding was that the U.S. patentee never received any royalty under their U.S. patent. However, Intel makes the unsupported leap that if the foreign seller had been the U.S. patent owner, then, this Court would have ruled that there *was* patent exhaustion, even though the U.S. patent owner would remain without any royalty or benefit from his U.S. patent. This surmise finds no support in the *Boesch* decision.

III. *QUANTA* DID NOT ADDRESS FOREIGN PATENT EXHAUSTION

This Court's ruling in *Quanta*, may have addressed many issues, but foreign exhaustion was not one of them. *Quanta*, not surprisingly, confirmed earlier Court precedent (*Univis*) that the sale of less than all of the components of a patented combination, that have no substantial noninfringing use, can exhaust a patent. 128 S.Ct. at 2120. It held that patent exhaustion can apply to method patents. *Id.* at 2117-18. It also held that the type of restrictions in LG Electronics Inc.'s ("LG") license to Intel were ineffective to preclude exhaustion when products were sold under that license. *Id.* at 2121-22. However, it did not hold that foreign sales exhaust U.S. patent rights.

A. Background: The Patents And Licenses At Issue In *Quanta*

LG is the owner of the three patents at issue in *Quanta* (collectively, the "LG Patents"). *Quanta*, 128 S.Ct. at 2113; see *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1377-78 (Fed. Cir. 2006). The LG Patents relate to systems whereby a microprocessor writes or reads data to or from memory units. *Id.* LG licensed Intel (the "License Agreement") to make, use, or sell combination products practicing the LG Patents. *Quanta*, 128 S.Ct. at 2114. The License Agreement restricted Intel from passing a license under the LG Patents to any customer to make the patented combination by combining Intel's unpatented chips with components acquired from a source other than Intel. *Id.* On the other hand, the License Agreement clearly stated that it did not "limit or alter the effect of patent exhaustion that would otherwise apply when [Intel] sells any of its Licensed Products." *Id.*

Intel and LG also entered into a second "Master" agreement in which Intel agreed to provide written notice to its customers that its license from LG "does not extend, expressly or by implication, to any product that [a subsequent purchaser] make[s] by combining an Intel product with any non-Intel product. *Id.* However, the Master Agreement did not impose an affirmative restriction on Intel's sales. *Id.* at 2121-22.

Intel sold chips and microprocessors (the "Intel Chips") to Quanta, but not the standard hardware (*e.g.*, wires, buses and memory units) used to connect the Intel

Chips in a working computer, and gave the notice required by the Master agreement. *Id.* at 2114. None of the Intel Chips infringed the LG Patents until assembled with that standard hardware into a computer. However, the Intel Chips were "specifically designed to function only when memory or buses are attached." *Id.* at 2120. The "only reasonable and intended use [for the Intel Chips] was to practice the [LG Patents]." *Id.* at 2119. In fact, "Intel all but practiced the patent itself by designing its products to practice the patents, lacking only the addition of standard parts." *Id.* at 2120.

B. *Quanta* Did Not Involve Foreign Exhaustion

The dispute arose after Quanta manufactured computers by combining the Intel Chips with non-Intel wires, buses and memory units, in a way that the assembled computer practiced the LG Patents. The issue this Court resolved was whether those computers infringed the LG Patents or whether Intel's sale of the Intel Chips exhausted LG's rights to patents covering a system containing those chips. Whether the LG Patents would be exhausted if Intel sold its chips outside the United States was **not** at issue and was not ruled on by this Court.

The district court granted Quanta's motion for partial summary judgment. It held that patent exhaustion applied to the sale of unpatented Intel Chips because they had no function except as components in the patented systems. *LG Elecs. Inc. v. Asustek Computer Inc.*, 65 U.S.P.Q.2d 1589, 1598-1600 (N.D. Cal. 2002). The Federal Circuit disagreed. *See LG Elecs., v.*

Bizcom, 453 F.3d 1364. It held that the sale of the Intel Chips was not authorized, because their sale was conditioned on an agreement not to combine those chips with non-Intel products. It concluded that the exhaustion doctrine does not apply to an expressly conditioned sale or license, nor to method patents. *Id.* at 1370. Exhaustion based on foreign sales was not addressed.

This Court held that *Univis* governed the case. In *Univis*, this Court found that exhaustion occurs when the only reasonable and intended use of the product sold is to complete the patented combination. *Quanta*, 128 S.Ct. at 2119. This Court found that as with the product at issue in *Univis*, the Intel Chips substantially embodied the patented invention and all but completely practiced the LG Patents because the "only step necessary to practice the patent is the application of common processes or the addition of standard parts." *Id.* at 2120.

This Court ruled that patent exhaustion applied to method patents (*id.* at 2117),[9] and because Intel was authorized to sell components sufficient to contribute to the infringement of the LG Patents, the doctrine of patent exhaustion prevented LG from asserting its patent rights against Quanta's computers. Importantly, nothing in Quanta in any way addresses the issue of foreign exhaustion.

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9. Unlike its earlier decisions, in *Jazz v. ITC*, the Federal Circuit correctly ruled that patent exhaustion applies to method patents, albeit subject to a method patent version of the first sale doctrine. 264 F.3d at 1108-09.

A careful review of the *Quanta* decision confirms that nowhere does it discuss whether any of Intel's allegedly patent exhausting sales were made outside the United States. The reason for this is clear. The issue of foreign sales was not before this Court. The issue of foreign sales was absent from Petitioner Quanta's opening brief to this Court. It is not until the last page of Respondent LG's 53 page brief, at footnote 19, that the issue of foreign sales even appears. LG merely suggested that "whether the sales of the components took place exclusively outside the United States" was an "open" issue. In its reply, Quanta confirms that the issue of foreign sales was not before this Court:

> [LG] also suggests (RespBr-53 n.10) that it might still argue that exhaustion should not apply because these sales may have occurred outside the United States. [LG] has never made this argument before, never even requested discovery on the locus of Intel's sales to Quanta, and has clearly waived this issue.

Quanta Reply Br. at 3-4, n.2. Accordingly, *Quanta* did not involve the issue of foreign sales.

Nevertheless, in *Quanta*, this Court had an opportunity to address this precise issue and **did not hold that foreign sales exhaust U.S. patent rights**. Section "B" of the *Quanta* decision involved "the extent to which a [noninfringing] product must embody a patent in order to trigger exhaustion." *Quanta*, 128 S.Ct. at 2118. In *Univis*, this Court held that a sale of less than an entire patented combination will trigger exhaustion

when a product's "only reasonable and intended use [is] to practice the patent." *Id.* at 2119. LG argued that the Intel Chips did have a reasonable noninfringing use — use overseas — that would not infringe LG's patents (LG's "overseas" argument). *Id.* at 2119, n.6. However, this Court held that, for purposes of determining whether the sale of less than the patented combination triggers exhaustion, the analysis looks at whether the only reasonable use is one that practices the patent, even if not technically infringing the patent. Therefore, the Intel Chips were held to be the type of products that can exhaust a patent, even if they do not infringe the patent when sold overseas. *Id.* In other words, this Court ruled that foreign use was not an example of a reasonable noninfringing use sufficient to avoid a finding of contributory infringement, and therefore avoid a finding of patent exhaustion. *Id.*[10]

Intel argues here (Intel Br. at 17-18), and the defendants in *Fujifilm v. Benun* argued, that footnote 6 of this Court's Quanta opinion represented a ruling that foreign sales can exhaust U.S. patent rights.

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10. The former Deputy Solicitor General who argued *Quanta* for the U.S. agrees that whether the LG Patents would be exhausted if Intel sold its chips outside the U.S. was *not* at issue and was not ruled on by this Court. Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, 49 IDEA 517, 543, n.128 (2009) (concluding that even after *Quanta* "the overseas sale of an article or component that is the subject of a U.S. patent cannot exhaust the patent holder's rights, because no authorization under the U.S. patent would have been required or exercised in that overseas sale, given that U.S. patent rights generally do not apply extraterritorially.").

Similarly, *amicus* AIPLA, also relying on footnote 6, misreads this Court's decision in *Quanta* and erroneously states that LG argued to the Court in *Quanta* that exhaustion did not apply to the first sale of the patentee product overseas. AIPLA Br. at 36-38. The Federal Circuit rejected this argument, pointing out that the use of the phrase "[w]hether outside the country" in footnote 6:

> emphasizes that Univis required the products only use to be for practicing – not infringing – the patent; and a practicing use may be "outside the country," while an infringing use must occur in the country where the patent is enforceable. Read properly, the phrase defendants rely on supports, rather than undermines, the exhaustion doctrine's territoriality requirement.

Fujifilm v. Benun, 605 F3d at 1371-72.

Accordingly, this Court's analysis of what LG presented as **a foreign sales hypothetical** in footnote 6 confirms that it did not hold that foreign sales can exhaust U.S. patent rights. If patent exhaustion were triggered by authorized foreign sales, this Court very easily could have responded to LG's foreign sales hypothetical by stating that the location of the authorized sale did not make any difference. If this Court believed, as Intel suggests, that the products at issue were sold overseas, then LG would not have been proposing a hypothetical involving foreign sales, but merely reciting the facts of the case. However, because patent exhaustion is not triggered by foreign sales, this

Court distinguished LG's hypothetical by noting that under *Univis*, LG has suggested no reasonable use for the Intel Chips other than incorporating them into computer systems that practice the LG Patents.

IV. THE OTHER CASES CITED BY INTEL ARE DISTINGUISHABLE

Intel cites the district court decision in *LG Electronics v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1045 (N.D. Cal. 2009)("*Hitachi*"), as persuasive reasoning that *Quanta* supports finding that foreign sales of an item covered by a U.S. patent exhaust the U.S. Patent. Intel Br. at 18-20. However, the *Hitachi* case was considered and not followed in *Fujifilm v. Benun*, where the Federal Circuit reached the opposite conclusion. Moreover, the district court's supposedly persuasive reasoning in *Hitachi* includes two important flaws, as discussed below.

First, the *Hitachi* court incorrectly reasoned that limiting exhaustion to domestic sales would permit the patent owner to do an "'end run' around the exhaustion doctrine by authorizing a sale, **thereby reaping the benefit of its patent**, then suing a downstream purchaser for patent infringement." *Hitachi*, 655 F. Supp. 2d at 1046. (emphasis added). Second, the court acknowledged that U.S. patent laws do not give U.S. patents any extraterritorial effect because there is no liability under a U.S. patent for sales occurring outside the U.S., but then erroneously reasoned that extraterritorial effect and triggering exhaustion are unrelated. *Id.* at 1047. These erroneous arguments were based, in large part, on a misreading of *Quanta*'s

footnote 6 (*id.* at 1046), which, as discussed above, the Federal Circuit expressly rejected in *Fujifilm v. Benun*. The critical flaw in these arguments is that **the U.S. patent owner derives no benefit from its U.S. patent when it sells the patented product overseas.** It is precisely because foreign sales do not lead to liability under a U.S. patent that the patent owner cannot restrict competition or exact royalties. Therefore, the U.S. patent owner derives no benefit from his U.S. patent. Accordingly, limiting exhaustion to domestic sales does not permit any end run around the exhaustion doctrine.

Intel also cites *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920). Intel Br. at 11-12. However, *Curtiss* was clearly decided on implied license grounds, not exhaustion grounds. The defendant manufactured airplanes in Canada under a detailed license agreement between plaintiff and the British government. *Curtiss*, 266 F. at 73. The Second Circuit found that the British government received an implied license to use the aircraft worldwide as a matter of fact, because the patentee had to have expected the airplanes at issue to be used for their intended purpose. The Second Circuit reasoned that the parties to the transaction understood that an airplane is the most mobile article in existence and is susceptible of use anywhere in the world. *Id.* at 75. Nowhere in the decision did the Second Circuit hold that foreign sales exhaust U.S. patent rights as a matter of course, even if the U.S. patent owner obtained no benefit under his U.S. patent.

Intel also cites *Kabushiki Kaishi Hattori Seiko v. Refac Technology Dev. Co.*, 690 F. Supp. 1339, 1342

(S.D.N.Y. 1988), where the court based its decision on the language of the settlement agreement between the parties, not on an exhaustion theory. Intel Br. at 12. It held that the settlement agreement in question granted Hattori Seiko a license to sell anywhere in the world and that Hattori Seiko could pass that license along to its customers. *Seiko v. Refac*, 690 F.Supp. at 1343-44.

Intel's brief also misinterprets the holding in *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2005w), alleging that *MEMC* stands for the proposition that shipping goods via "free on board ships at a foreign port," could permit an "end run" around *Quanta*. Intel Br. at 22. In fact, *MEMC* confirms that the designation of a shipment "free on board" at a foreign port, does not mean that the sale did not take place in the United States. 420 F.3d at 1377. Rather, *MEMC* confirms that the location of a sale "is not necessarily where legal title passes; the 'more familiar places of contracting and performance' may take precedence over the passage of legal title." *Id.* (citation omitted).

V. INTEL'S DOOMSDAY PREDICTIONS DO NOT SURVIVE ANALYSIS

Many of the doomsday predictions concerning innocent importers of products specifically made for the U.S. market are easily resolved under express or implied license theories. Therefore, they should not affect the straightforward application of patent or copyright exhaustion principles. Thus, a license to sell patented or copyrighted products in the United States can result from the circumstances surrounding a

transaction. *See, e.g. Carborundum Co. v. Molten Metal Equip. Innov., Inc.*, 72 F.3d 872, 877-78 (Fed. Cir. 1995). Accordingly, if a book is printed in English and sold to a retailer in the United States by the copyright owner or his licensee, the circumstances of the transaction point to an implied license under the U.S. copyright. Likewise, if the U.S. patent owner knows that the purchaser of a patented chip overseas intends to incorporate that chip into products made overseas for sale the United States, the patent owner would be hard pressed to sue when the product reaches the United States.

It has been almost ten years since the Federal Circuit in *Jazz v. ITC* confirmed that foreign sales do not exhaust U.S. patents and there is no evidence in the record of companies moving manufacturing overseas to avoid the consequences of exhaustion. In fact, the distinctions between the goods from the U.S. manufacturing facility and foreign factories was helpful for Fujifilm to prove that certain products were infringements because they were not first sold in the United States. *Fuji Photo Film Co. v. Int'l Trade Comm'n*, 474 F.3d 1281, 1293-1294 (Fed. Cir. 2007); *Fuji Photo Film*, 249 F. Supp. 2d at 451, n.22. In fact, worldwide production of the single use cameras that were the subject of the Fujifilm cases has been consolidated in the United States. Clearly, it is much easier for a company to address the foreign exhaustion issues by contract than moving centers of manufacturing.

Intel's emotional appeal regarding consumers having their camera software excluded from the U.S. is yet another red herring. The copyright law itself

provides protection to consumers in Section 602(a)(3) (current), which provides that:

> This subsection [602(a)(1) or (2)] does not apply to
>
> . . .
>
> (B) importation or exportation, for the private use of the importer or exporter and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time . . . .

17 U.S.C. § 602(a)(3). Further, Section 602(b) provides that, while copies or phonorecord that are infringements where made (i.e., piratical copies) cannot be imported, while copies or phonorecords that were lawfully made cannot be excluded by United States Customs and Border Protection. 17 U.S.C. § 602(b).

Moreover, the exclusion order at issue in *Jazz v. ITC* included a special exemption for consumers bringing infringing cameras into the U.S. for their own personal use. *In re Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406, 1999 WL 377277, General Exclusion Order (ITC June 2, 1999). Accordingly, speculation regarding the unrealistic plight of innocent consumers should have no bearing on this Court's ruling.

VI. COPIES MADE AND SOLD OUTSIDE THE UNITED STATES ARE NOT MADE UNDER THE COPYRIGHT ACT UNLESS THE COPYRIGHT OWNER AUTHORIZES THEIR IMPORTATION

The issue before this Court involves whether a copy of a copyrighted work that is both made and sold outside the United States is nevertheless lawfully made under Title 17. As argued by *amicus* United States, in its opposition to Costco's petition for certiorari, to give merit to foreign exhaustion would be to misinterpret the extraterritorial effect of U.S. copyrights. As *amicus* United States explains, this Court's decision in *Quality King*, 523 U.S. at 143-52, holds that the first sale doctrine only applies to copies that were lawfully made under "this title," quoting 17 U.S.C. § 109(a). Because the imported copies at issue in *Quality King* were made in the United States by the copyright owner, they were made under the Copyright Act and the U.S. copyright was exhausted. U.S. Cert. Br. at 2.

In this case, the Ninth Circuit below concluded that copies covered by the phrase "lawfully made under [Title 17]" in Section 109(a) are copies made "within the United States," because that is where the Copyright Act applies. *Id.* at 4; *Omega S.A. v. Costco Whole Corp.*, 541 F.3d 982, 988 (9th Cir. 2008). The Ninth Circuit decision is consistent with *Quality King*. U.S. Cert. Br. at 5-6; *Omega*, 541 F.3d at 990. Thus, the decision below is supported by the plain language of the statute. Nothing in Section 602(a) (as previously enacted or in its current form) conflicts with this statutory construction. That section recognizes that "importation" is governed by whether the copyright owner has expressly or implicitly

authorized the importation (as opposed to the making of the copy or phonorecord as provided in Section 109(a)). The Ninth Circuit recognized the role that such "authority" plays in stating its copyright first sale doctrine as applying to copies not made in the United States, so long as an authorized first sale of such copies does not occur here. *Omega*, 541 F.3d at 986. Title 17 does not apply to acts that occur outside the United States. *See, e.g. United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260 (1908). No aspect of the Copyright Act could have prevented one of *Omega*'s competitors from making or selling copies of its copyrighted design outside the United States. *Omega*'s making and selling of those copies outside the U.S. earned it no benefit derived from its U.S. Copyright. *Omega* did not authorize the sale of the copies at issue in the United States. *Omega* Br. at 3, 13. Accordingly, there is no reason to hold such foreign making and selling to have occurred under the act.

CONCLUSION

Pursuant to Supreme Court Rule 14.1(a), this Court should refuse to consider the issue of patent exhaustion and the patent first sale doctrine in this matter as it is not the presented question. Should the Court decide that patent exhaustion is properly before the Court it should not rule based merely on its *Quanta* decision, since the patent first sale doctrine was not before the Court. In any event, if it does rule, this Court should find that sales of patented products made abroad and not imported into the U.S. with the authority of the patent owner, do not exhaust a U.S. patent.

AMICUS CURIAE BRIEF

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IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

BRIEF OF INTEL CORPORATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

TINA M. CHAPPELL
INTEL CORPORATION
M/S: OC2-157
4500 South Dobson Road
Chandler, AZ 85248
(480) 715-5338

THEODORE B. OLSON
Counsel of Record
MATTHEW D. MCGILL
SCOTT P. MARTIN
GIBSON, DUNN & CRUTCHER LLP
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 955-8500
tolson@gibsondunn.com

Counsel for Amicus Curiae

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BRIEF OF INTEL CORPORATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF *AMICUS CURIAE*[1]

The issue in this case is whether the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), applies to goods manufactured and sold abroad. *Amicus* has a substantial interest in the correct resolution of that issue not only for its implications for copyright law but also because of its potential consequences for patent law, which contains an analogous first-sale doctrine.

Intel Corporation is the world's largest semiconductor manufacturer and is also a leading manufacturer of computer, networking, and communications hardware and software products. Among other things, it provides the "digital building blocks" at the heart of the worldwide digital economy, including desktop, mobile, and server computers, digital entertainment devices, and networking and communications products. The vast majority of Intel's hardware products are subject not only to patent protection but also to mask work protection under 17 U.S.C. §§ 901 *et seq.*

The Ninth Circuit's decision below parallels the reasoning of the Federal Circuit in holding that the

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[1] Pursuant to this Court's Rule 37.3(a), letters of consent from all parties to the filing of this brief have been submitted to the Clerk. Pursuant to this Court's Rule 37.6, *amicus* states that this brief was not authored in whole or in part by counsel for any party, and that no person or entity other than *amicus* or its counsel made a monetary contribution intended to fund the preparation or submission of this brief.

first-sale doctrine does not apply to foreign sales of patented products because "the United States patent system does not provide for extraterritorial effect." *Fuji Photo Film Co.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005); *see also* Pet. App. 11a (applying the first-sale doctrine to goods manufactured and sold abroad "would require an invalid extraterritorial application of the Copyright Act"). Intel is concerned that this decision misinterprets the extraterritoriality doctrine.

Intel has a uniquely balanced perspective on the issue in this case. As the owner of a vast array of patents, Intel is acutely aware of the importance of protecting intellectual property as an incentive to creativity. And as a manufacturer of innovative products that incorporate hundreds or even thousands of potential technologies, Intel and the purchasers of its products are also potential defendants in infringement suits.

Indeed, Intel is supporting petitioner before this Court even though it owns numerous copyrights and deploys thousands of software developers to write the software and firmware needed for its products to work. Each year, Intel's copyright-protected software is loaded onto more than one hundred million personal computers built outside the United States and then shipped around the world, including into the United States. Under the Ninth Circuit's extraterritoriality reasoning, Intel would apparently be able to block this code and the computer systems that contain it from entering the United States—even though Intel itself authorized the first sale. In this respect, Intel believes that the decision below results in a drastic reallocation of property rights for goods in international circulation.

SUMMARY OF ARGUMENT

The first-sale doctrine for patents, also known as the "patent exhaustion" doctrine, provides meaningful guidance for this Court in interpreting the analogous first-sale doctrine for copyrighted works under 17 U.S.C. § 109(a). Both doctrines share a foundation in the common-law rule against restraints on alienation of property, and Congress enacted Section 109(a) and its predecessor to codify the first-sale doctrine as it had developed at common law. Given the close connection between copyright law and patent law, and in particular the shared origin of the first-sale doctrines in these areas, the historical scope of the patent exhaustion doctrine is particularly informative in understanding Section 109(a).

When the predecessor to Section 109(a) was enacted in 1909, and also when Section 109(a) itself was enacted in 1976, the patent exhaustion doctrine was consistently understood as terminating the patentee's ability to control post-sale use after the initial authorized sale of a patented article. The exhaustion doctrine applied even if that initial sale occurred abroad and involved a patented article that had been manufactured abroad; the only relevant inquiry was whether the sale had been authorized by the patentee. This consistent interpretation of the patent exhaustion doctrine makes clear that the background understanding when Congress acted was that the first-sale doctrine applies equally to goods manufactured and sold abroad.

The Ninth Circuit below attempted to cabin the first-sale doctrine in Section 109(a) by invoking extraterritoriality concerns. This is precisely the same reasoning that the Federal Circuit has invoked in holding that the patent exhaustion doctrine cannot

be applied to goods sold abroad without attaching impermissible extraterritorial effect to the patent laws. These recent decisions cannot undermine the consistent view of the federal courts at the relevant time—that is, when Congress codified the first-sale doctrine for copyrights—but in any event their extraterritoriality reasoning is foreclosed by *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 128 S. Ct. 2109 (2008).

Quanta reaffirmed that the patent exhaustion doctrine applies to any authorized sale of an article that substantially embodies the patent. Even though the Court was aware that *Quanta* involved foreign sales, it applied patent exhaustion to the United States patents at issue without even hinting that the exhaustion doctrine was subject to any geographical limitation. To the contrary, it cautioned against imposing exceptions that would permit an "end-run" around exhaustion—yet this is precisely what would occur if patentees were permitted to avoid exhaustion simply by manufacturing and selling their products abroad. *Quanta* thus forecloses extraterritoriality-based limitations on the patent exhaustion doctrine and, as a result, undermines the Ninth Circuit's effort to impose such limitations on the analogous doctrine for copyrights.

ARGUMENT

I. THE FIRST-SALE DOCTRINE IN THE PATENT CONTEXT PROVIDES HELPFUL GUIDANCE FOR THIS COURT IN INTERPRETING THE PARALLEL DOCTRINE FOR COPYRIGHTS.

The first-sale doctrine is recognized in several areas of intellectual property. Indeed, it operates to "limi[t] the three principal forms of intellectual property rights: (1) copyright, (2) patent, and (3) trade-

mark." *Allison* v. *Vintage Sports Plaques*, 136 F.3d 1443, 1448 (11th Cir. 1998) (citations omitted). In the patent context, the patent exhaustion doctrine provides that an "authorized sale of an article embodying [an] invention . . . exhausts the monopoly in that article[,] and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942).

In each of these areas of intellectual property, "[t]he first sale doctrine has its roots in the English common law against restraints on alienation of property." H.R. Rep. No. 98-987, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2898, 2899. Intellectual-property law "'promote[s] the Progress of Science and useful Arts' by rewarding innovation with a temporary monopoly." *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730 (2002) (quoting U.S. Const. art. I, § 8, cl. 8). But "this monopoly is no longer needed" to protect a patented, copyrighted, or trademarked article once "the owner has received the desired compensation" from selling that article. *Brilliance Audio, Inc.* v. *Haights Cross Commc'ns, Inc.*, 474 F.3d 365, 373 (6th Cir. 2007). In that circumstance, "[t]he first sale doctrine ensures that the [intellectual property] monopoly does not intrude on the personal property rights of the individual owner, given that the law generally disfavors restraints of trade and restraints on alienation." *Id.* at 374.

Congress has, of course, codified the first-sale doctrine for copyrights in 17 U.S.C. § 109(a). But, as Costco has explained, Section 109(a) was designed to "give effect to . . . th[e] common law policy in the copyright realm." Br. for Pet'r 27. Thus, "[t]he first sale rule [for copyrights] is statutory, but finds its origins in the common law aversion to limiting the

alienation of personal property." *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988).

Where, as here, a "statute covers an issue previously governed by the common law," this Court "interpret[s] the statute with the presumption that Congress intended to retain the substance of the common law." *Samantar* v. *Yousuf*, 130 S. Ct. 2278, 2289 n.13 (2010) (citing *Isbrandtsen Co.* v. *Johnson*, 343 U.S. 779, 783 (1952)); *see also Astoria Fed. Sav. & Loan Ass'n* v. *Solimino*, 501 U.S. 104, 108 (1991) (noting that "Congress is understood to legislate against a background of common-law . . . principles"). Nothing in the text or legislative history of Section 109(a) undermines this presumption; there is no indication whatsoever that Congress intended to depart from—rather than codify—the first-sale doctrine as it existed at common law.

Moreover, there is no reason for this Court to consider only the common-law understanding of the first-sale doctrine for *copyrights*. To the contrary, this Court has acknowledged the "historic kinship between patent law and copyright law." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (looking to patent cases to analyze the scope of contributory copyright infringement); *cf. Wheaton* v. *Peters*, 33 U.S. (8 Pet.) 591, 657 (1834) ("In what respect does the right of an author differ from that of an individual who has invented a most useful and valuable machine?"). Although "there are differences between the patent and copyright statutes in the extent of the protection granted by them," *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345 (1908), those differences are inapplicable here given the common origin and shared historical foundation

of the first-sale doctrine in both copyright law and patent law.

Indeed, it would make little sense to analyze the first-sale doctrine for copyrights *without* being informed by the analogous doctrine for patents. The same product can—and often does—embody both copyrights and patents. Interpreting the first-sale doctrine to apply differently in these two contexts would therefore lead to the bizarre result in which the sale of a patented and copyrighted article could exhaust one intellectual property right while leaving the other intact. To take one example, a camera may be patented while the software that controls it is protected by copyright. Yet if the patent exhaustion doctrine were applied to foreign sales but Section 109(a) were not, an American tourist who purchased the camera abroad would be forced to strip the software from the camera before returning home, thus rending the camera unusable, or else commit copyright infringement by importing the software—even though the tourist would be fully permitted to import the patented camera itself.

II. When The First-Sale Doctrine Was Enacted In The Copyright Acts Of 1909 And 1976, The Analogous Doctrine In The Patent Context Was Consistently Understood As Applying Whenever The Patentee Had Been Fully Compensated For Its United States Patent Rights.

The "ultimate question embodied in the 'first sale' doctrine" is "'whether or not there has been such a disposition of the article that it may fairly be said that the patentee . . . has received his reward for the use of the article.'" *Platt & Munk Co.* v. *Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963)

(quoting *United States* v. *Masonite Corp.*, 316 U.S. 265, 278 (1942)). Thus, for over a century, the federal courts recognized that it was irrelevant to the patent exhaustion doctrine whether the manufacture and sale of the patented article occurred in the United States or abroad. *See, e.g.*, *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893). This understanding prevailed when the first-sale doctrine was codified in the Copyright Act of 1909 and also when the doctrine was restated in the Copyright Act of 1976, and it provides additional support for interpreting the first-sale doctrine in the copyright context to apply regardless of whether the goods were manufactured and sold abroad.

A. The patent exhaustion doctrine is "triggered . . . by a sale *authorized* by the patent holder." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 128 S. Ct. 2109, 2121 (2008) (emphasis added). The holder of a United States patent is entitled to "receiv[e] his reward for the use of the [patented] article," *Masonite Corp.*, 316 U.S. at 278, but the patentee has exhausted its interest in a patented article once it has been compensated for its United States patent rights. Thus, "when the patentee . . . sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use." *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873); *see also, e.g.*, *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863) ("[Patentees] are entitled to but one royalty for a patented machine, and consequently when a patentee has himself constructed the machine and sold it, . . . he . . . cease[s] to have any interest whatever in the machine so sold . . . .").

This Court's decision in *Boesch* v. *Gräff*, 133 U.S. 697 (1890), is instructive. The issue in *Boesch* was

"whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, *without the license or consent of the owners of the United States patent*." *Id.* at 702 (emphasis added). Because the foreign seller lacked any authority under the United States patent, this Court concluded that "purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent." *Id.* at 703. That is, the exhaustion doctrine was inapplicable because "neither the [American] patentee nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States." *Keeler* v. *Standard Folding-Bed Co.*, 157 U.S. 659, 665 (1895); *see also, e.g.*, *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920) (noting that the foreign sale in *Boesch* involved "no participation whatever by the owner of the patent, either as a party or as a privy").

B. Because the relevant issue for patent exhaustion is authorization, it is unsurprising that the federal courts long regarded as irrelevant whether the patented article was manufactured or sold abroad. The leading early decision in this area is *Holiday* v. *Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885). The issue in *Holiday* was:

> whether the owner of a patent in the United States for an invention, who has sold the patented article in England without restriction or conditions, can treat as an infringer one who has purchased the article in England of a vendee of the patentee, and can re-

> strain him from using or selling the article here.

Id. at 185.

Holiday's reference to a sale "without restriction or conditions" acknowledges that a patentee may impose otherwise lawful contractual limitations at the time of sale. 24 F. at 186 (noting that, "where a license accompanies the transfer, the purchaser's rights are limited to the extent of the monopoly granted to him"); *see also, e.g., Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 127 (1938) ("As the restriction [in the license] was legal and the [patented articles] were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted . . . ."). But the issue in *Holiday* was whether, in the absence of such restrictions, the fact that the sale occurred abroad prevented application of the exhaustion doctrine.[2]

At the time, the English courts had held that their equivalent of the patent exhaustion doctrine applied equally to foreign sales. In *Betts* v. *Willmont*, for instance, Lord Hatherley held that, "inasmuch as [the patentee] has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser

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[2] Omega has argued that some of the watches at issue in this litigation were "sold overseas under distribution agreements that restricted resale to specific geographic territories outside the United States." BIO 3 n.1. The Ninth Circuit did not, however, invoke these alleged contractual limitations in ruling against Costco but instead held that the first-sale doctrine *never* applies to goods manufactured and sold abroad. Intel takes no position on the relevance *vel non* of any alleged contractual limitations in this case.

pleases." 6 Law Reports 239, 245 (Ch. App. 1871) (emphases in original), *available at* 1871 WL 12598.

Holiday reached the same conclusion as the English courts. Deeming it "quite immaterial whether the thing sold is a patented article or not," the court held that, "if the [patentee] sells without reservation or restriction, he parts with his monopoly so far as it can in any way qualify the rights of the purchaser." 24 F. at 185. Thus, the original purchaser "acquire[d] the right of unrestricted ownership in the article he buys as against the [patentee], including, as an inseparable incident, the right to use and enjoy it, and to transfer his title to others." *Id.* at 186.

The Second Circuit subsequently adopted *Holiday*'s reasoning. In *Dickerson*, the court held:

> A purchaser in a foreign country of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions upon the extent of his use or power of sale, acquires an unrestricted ownership in the article, and can use or sell it in this country.

57 F. at 527; *see also Curtiss Aeroplane*, 266 F. at 78 (holding that "where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country."). The court explained that, "[a]s the [patentee] has already been paid for [the patented article], it is no longer concerned about the price at which the article is sold, or whether the article is kept in Canada, or in Great Britain, or in the United States." *Curtiss Aeroplane*, 266 F. at 79.

The patented articles in both *Dickerson* and *Curtiss Aeroplane* were manufactured and sold outside

the United States. *See Dickerson*, 57 F. at 525 (involving imported "benzo-purpurine, made under . . . letters patent by the Berlin Company" in Germany); *Curtiss Aeroplane*, 266 F. at 72 (noting that the "aeroplanes which are said to infringe were made in Canada for the British government . . . , and that after the war defendant purchased them from the British government, and . . . is now proceeding to sell them in the United States"). But neither decision regarded the location of manufacture or sale as relevant to the patent exhaustion doctrine. Instead, both cases held that exhaustion was triggered by the initial authorized sale—even though it occurred abroad and involved items manufactured abroad.

The decisions in *Holiday*, *Dickerson*, and *Curtiss Aeroplane* remained authoritative throughout the twentieth century. *See, e.g.*, *Kabushiki Kaisha Hattori Seiko* v. *Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (holding that the patent exhaustion doctrine "applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States"); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 937–38 (D.N.J. 1983) (relying on the patent exhaustion doctrine to deny an "injunction against distribution in this country of the product that [the patentee] sold in France without restriction"). And, consistent with these decisions, the leading commentators on patent law recognized that "exhaustion of United States patent rights may occur if a sale in a foreign country is unrestricted and the seller holds the patent rights to sell in the United States as well

as in the foreign country." 5 Donald S. Chisum, *Chisum on Patents* § 16.05[3][a][ii], at 16-242 (2001).[3]

C. When the first-sale doctrine was enacted in the Copyright Act of 1909 and again in the Copyright Act of 1976, the federal courts recognized that the exhaustion doctrine applied to authorized sales by the United States patentee, regardless of whether the goods were manufactured and sold abroad. The Court should construe the Copyright Act's first-sale doctrine in light of this contemporaneous understanding of the analogous doctrine in patent law.

This Court has emphasized that "[s]tatutory construction . . . is a holistic endeavor," and therefore "[a] provision that may seem ambiguous in isolation is often clarified . . . because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law." *United Sav. Ass'n of Tex.* v. *Timbers of Inwood Forest Assocs.*, 484 U.S. 365, 371 (1988). Congress codified the common-law first-sale doctrine for copyrights at a time when the parallel doctrine in patent law was consistently understood as applying equally to goods manufactured and sold abroad. Nothing in Section 109(a) or

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[3] *See also, e.g.*, 3 Peter D. Rosenberg, *Patent Law Fundamentals* § 18.05[1], at 18-56 (2d ed. 2001) (noting that the patent exhaustion doctrine "applies to an authorized first sale abroad by a patent owner or licensee that also has the right to sell in the United States"); David S. Safran, *Protection of Inventions in the Multinational Marketplace: Problems and Pitfalls in Obtaining and Using Patents*, 9 N.C. J. Int'l L. & Com. Reg. 117, 126 (1983) ("It has long been recognized that th[e] [patent exhaustion] doctrine is not restricted to situations when a U.S. patentee has sold his goods within the United States, but also applies to the unrestricted sale of goods outside of the United States.").

its legislative history indicates that Congress intended to create a different first-sale regime for copyrights from the one that was well settled in a related area of intellectual-property law. This Court should not interpret Section 109(a) as doing so *sub silentio*.

III. This Court's Decision In *Quanta* Makes Clear That Application Of The First-Sale Doctrine To Goods Manufactured And Sold Abroad Does Not Violate The Presumption Against Extraterritorial Effect.

The Ninth Circuit below concluded that applying the first-sale doctrine to goods manufactured and sold abroad would result in an impermissible extraterritorial application of the Copyright Act. *See* Pet. App. 11a. The Federal Circuit has invoked the same reasoning to conclude that the patent exhaustion doctrine does not apply to patented goods sold abroad because "the United States patent system does not provide for extraterritorial effect." *Fuji Photo Film Co.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005); *see also, e.g.*, *Fujifilm Corp.* v. *Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (per curiam).

These recent decisions do not alter the background rule that applied when Congress enacted the first-sale doctrine for copyrights. More importantly, the Ninth Circuit's extraterritoriality reasoning cannot be affirmed consistent with *Quanta*, which held—unequivocally and without any hint of geographic limitation—that "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 128 S. Ct. at 2122. This Court

unanimously applied the patent exhaustion doctrine in *Quanta* even though the bulk of goods at issue were manufactured and sold outside the United States. The Ninth Circuit erred by holding that the analogous first-sale doctrine for copyrights could not be applied to goods manufactured and sold abroad.

A. In *Jazz Photo Corp.* v. *ITC*, the Federal Circuit held that the patent exhaustion doctrine does not apply to foreign sales. 264 F.3d 1094, 1105 (Fed. Cir. 2001). In that case, Fuji Photo Film charged Jazz Photo and other respondents with patent infringement for refurbishing Fuji's single-use cameras in overseas facilities and then importing them into the United States for resale. *Id.* at 1098. The Federal Circuit held that Fuji's patent rights were not infringed by repaired cameras "for which the patent right was exhausted by first sale in the United States," *id.* at 1110, but reached a different conclusion for "imported [single-use] cameras [that] originated and were sold only overseas," *id.* at 1105.

Fuji had also raised similar claims of patent infringement against Jazz Photo and others in a separate lawsuit. In that litigation, the defendants argued that "Fuji or its licensees authorized the international first sales" of the cameras, but the Federal Circuit concluded that this was irrelevant because "[t]he patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States." *Fuji Photo Film*, 394 F.3d at 1376. Instead, the court reaffirmed *Jazz Photo*'s holding that "only [cameras] sold within the United States under a United States patent qualify for the repair defense under the exhaustion doctrine." *Ibid.* "Fuji's foreign sales can never occur under a United States patent," the court explained,

"because the United States patent system does not provide for extraterritorial effect." *Ibid.*

B. The Federal Circuit's decisions illustrate how the extraterritoriality reasoning invoked by the Ninth Circuit below has been applied to the patent context. But this Court held in *Quanta* that "[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item" without drawing *any* distinctions regarding the location of that "initial authorized sale." 128 S. Ct. at 2115.

In *Quanta*, LG Electronics ("LGE") licensed to Intel several method patents for computer technology. 128 S. Ct. at 2114. The licensing agreement "authoriz[ed] Intel to 'make, use, sell . . . or otherwise dispose of' its own products practicing the LGE Patents." *Ibid.* (quoting Br. for Pet'rs 8). Intel produced microprocessors and chipsets that would practice the LGE patents when incorporated into computer systems following Intel's specifications. *Id.* at 2119. It sold these components to Quanta, which in turn "manufactured computers [combining the Intel processors and chipsets] with non-Intel memory and buses in ways that practice the LGE Patents." *Id.* at 2114. Quanta "d[id] not modify the Intel components and follow[ed] Intel's specifications to incorporate the parts into its own systems." *Ibid.* LGE sued Quanta, alleging that the "combination of the Intel Products with non-Intel memory and buses infringed the LGE Patents." *Ibid.*

This Court first held that the patent exhaustion doctrine applies to method patents, like the LGE patents at issue. 128 S. Ct. at 2117–18. The Court emphasized that "[e]liminating exhaustion for method patents would seriously undermine the exhaustion

doctrine," as patentees "could simply draft their patent claims to describe a method rather than an apparatus." *Id.* at 2117. This "end-run around exhaustion" was aptly illustrated in *Quanta*: "[A]lthough Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could [on LGE's theory] nonetheless be liable for patent infringement." *Id.* at 2118. The Court concluded that "[s]uch a result would violate the longstanding principle that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] *use* to be implied for the benefit of the patentee.'" *Ibid.* (quoting *Adams*, 84 U.S. (17 Wall.) at 457) (emphasis and second alteration in original).

The Court next considered "the extent to which a product must embody a patent in order to trigger exhaustion," concluding that "exhaustion [is] triggered" by the authorized sale of a product that "'embodie[s] essential features of [the] patented invention'" and whose "only reasonable and intended use [is] to practice the patent." 128 S. Ct. at 2118–19 (quoting *Univis*, 316 U.S. at 249–51) (third alteration in original). The Intel components "substantially embodie[d] the patent because the only step necessary to practice the patent is . . . the addition of standard parts." *Id.* at 2119.

As for the Intel components' potential uses, the Court concluded that "LGE has suggested no reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents." 128 S. Ct. at 2119. LGE argued that the Intel components "would not infringe its patents if they were sold overseas," but the Court emphasized that "the question is whether the product is 'capable of use only in *practicing* the patent,' not

whether those uses are infringing." *Id.* at 2119 n.6 (quoting *Univis*, 316 U.S. at 249) (emphasis in original). Even if "outside the country," "the Intel Products would still be *practicing* the patent, even if not infringing it." *Ibid.* (emphasis in original).

C. This Court held in *Quanta* that the "authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 128 S. Ct. at 2122. This holding forecloses any effort to cabin the patent exhaustion doctrine to goods manufactured or sold in the United States. Because that is the necessary consequence of the Ninth Circuit's extraterritoriality reasoning as applied to the patent context, the Ninth Circuit's decision cannot be affirmed consistent with *Quanta*.

1. The Federal Circuit has attempted to reconcile extraterritoriality-based limitations with *Quanta* by asserting that *Quanta* "did not involve foreign sales." *Fujifilm*, 605 F.3d at 1371. This factual claim is incorrect: Before the Federal Circuit, LGE had argued that the district court erred in failing to "restrict its ruling to U.S. sales," noting that "[a] significant portion of the chips Intel sells are manufactured and sold abroad." Br. for Appellant at 31 n.5, *LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *available at* 2005 WL 1397821. This Court was "aware that some sales under the license agreement were made overseas," *LG Elecs., Inc.* v. *Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1045 (N.D. Cal. 2009), and indeed LGE expressly argued in *Quanta* that "Intel Products would not infringe the patents if they were sold overseas," 128 S. Ct. 2119 n.6. That this Court was "aware of foreign sales of the Intel parts, yet declined to limit its holding to sales in the

United States, suggests that interpreting *Quanta* so as to impose such a limitation would be incorrect." *LG Elecs.*, 655 F. Supp. 2d at 1045.

There was no need for this Court to restrict its reasoning in *Quanta* to goods manufactured or sold domestically for a simple and obvious reason: Applying the exhaustion doctrine to goods manufactured and sold abroad "does not amount to giving extraterritorial effect to the patent law." *LG Elecs.*, 655 F. Supp. 2d at 1047.

As this Court has recognized, the fact that "[o]ur patent system makes no claim to extraterritorial effect" means that United States patents are granted "only over the United States market" and thus do not provide an "inventor [with] protection in markets other than those of this country." *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 523, 531 (1972); *see also, e.g.*, *Dowagiac Mfg. Co.* v. *Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915) ("The right conferred by a patent under our law is confined to the United States and its territories, and infringement of this right cannot be predicated of acts wholly done in a foreign country." (citation omitted)). This Court explained in *Quanta*, however, that the "question [for patent exhaustion] is whether the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." 128 S. Ct. at 2119 n.6 (quoting *Univis*, 316 U.S. at 249) (emphasis in original). When a foreign-made product subject to a United States patent is sold abroad by the holder of that patent, it is not an infringement in the foreign country—but the product *can* practice the patent, and that is the relevant inquiry for exhaustion.

According to the Federal Circuit, *Quanta* "emphasizes that *Univis* required the product's only use

be for practicing—not infringing—the patent; and a practicing use may be 'outside the country,' while an infringing use must occur in the country where the patent is enforceable." *Fujifilm Corp.*, 605 F.3d at 1372. But this ignores that the relevant "infringing use" occurs only in the United States: *Quanta*—like this case—arose precisely because the defendants ultimately sold the allegedly infringing articles here. *See, e.g.*, J.A. 37.

The same is true in the copyright context. It does not attach extraterritorial effect to the copyright laws, as the Ninth Circuit believed, to apply the first-sale doctrine to goods manufactured and sold abroad when the alleged infringement—and thus the activity to which the copyright laws are being applied—occurs in the United States. *See Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. 135, 145 n.14 (1998) (noting that "the owner of goods lawfully made under the [Copyright] Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad" and that "[s]uch protection does not require the extraterritorial application of the Act").

2. Reading an implicit exception into *Quanta* for goods manufactured and sold abroad would, moreover, "permit the type of 'end-run around exhaustion' disapproved in *Quanta*, because 'any downstream purchasers' of [a patented] product could be liable for infringement even though the product had been 'once lawfully made and sold.'" *LG Elecs.*, 655 F. Supp. 2d at 1045 (quoting *Quanta*, 128 S. Ct. at 2118).

Intel manufactures substantial amounts of its products in foreign locations. On the Ninth Circuit's extraterritoriality reasoning as applied to the patent context, the patent exhaustion doctrine would not

apply to *any* of the Intel microprocessors and chipsets that were manufactured in these foreign facilities and then sold to Quanta, a foreign manufacturer, in a foreign country. Thus, the American purchasers of Quanta's computers containing these microprocessors and chipsets could not use those computers without infringing LGE's patents – or, indeed, Intel's own patents. This is precisely the result that *Quanta* sought to avoid. 128 S. Ct. at 2118.

In this respect, shifting the focus of the exhaustion doctrine from authorization to the location of the manufacture or first sale would have dire consequences in the modern global economy. Particularly in high-tech industries, worldwide licenses are essential because of the number of countries involved in the manufacturing process and the number of components involved in complex electronic products. An individual computer can include components from a dozen or more companies. Any one of those components may be manufactured in one country, packaged in a second country, sold in a third country, and combined into third-party products in a fourth country before ultimately being imported into the United States for sale. For this reason, Intel and other companies often enter into license agreements that cover a licensor's worldwide patents (or some subset of them)—and, of course, pay a premium for those licenses. To hold that these worldwide licenses can never exhaust United States patent rights merely because the first sale occurred abroad would permit the ultimate "end-run around exhaustion" (128 S. Ct. at 2118), escalating the location of the first sale above even the express authorization of the patentee.

Yet this "end-run around exhaustion" (128 S. Ct. at 2118) is hardly the only untoward consequence that would flow from limiting patent exhaustion to

products made or sold in the United States. As in *Quanta*, the patentee could avoid the exhaustion doctrine altogether through relatively simple changes in its operations, such as manufacturing its goods in overseas factories and shipping them to the United States free on board ships at a foreign port. *See MEMC Elec. Materials, Inc.* v. *Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1374 n.3 (Fed. Cir. 2005) (noting that "free on board" is a "method of shipment whereby goods are delivered at a designated location, usually a transportation depot, at which legal title and thus the risk of loss passes from seller to buyer"). Yet such an implicit reservation of seller's rights in United States patents undermines the "longstanding principle," reaffirmed in *Quanta*, "that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.'" 128 S. Ct. at 2118 (quoting *Adams*, 84 U.S. (17 Wall.) at 457) (emphasis omitted; alteration in original); *see also, e.g.*, *Keeler*, 157 U.S. at 666 ("[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, *unrestricted in time or place*." (emphasis added)).

In short, *Quanta* recognized the danger of creating limitations in the patent exhaustion doctrine that any patentee could exploit to defeat exhaustion altogether. Yet this is precisely the result that would occur if the Ninth Circuit's extraterritoriality reasoning were affirmed and applied to the patent context, as the Federal Circuit has done. The Ninth Circuit's decision therefore cannot be affirmed consistent with *Quanta*.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

TINA M. CHAPPELL
INTEL CORPORATION
M/S: OC2-157
4500 South Dobson Road
Chandler, AZ 85248
(480) 715-5338

THEODORE B. OLSON
Counsel of Record
MATTHEW D. MCGILL
SCOTT P. MARTIN
GIBSON, DUNN & CRUTCHER LLP
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 955-8500

Counsel for Amicus Curiae

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IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner

v.

OMEGA, S.A.,

Respondent

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF RESPONDENT

DOUGLAS K. NORMAN, *President*
KEVIN RHODES, *Chair*
AMICUS BRIEF COMMITTEE
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, NW
Suite 1150
Washington, DC 20005
(202) 507-4500

GEORGE L. GRAFF
Counsel of Record
112 Holly Place
Briarcliff Manor, NY 10510
(914) 762-3706
georgegraff@paulhastings.com

VICTORIA A. CUNDIFF
REBECCA K. MYERS
LAURA K. ISENBERG
PAUL, HASTINGS, JANOFSKY
& WALKER, LLP
75 East 55 Street
New York, NY 10022
(212) 318-6000

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INTEREST OF AMICUS CURIAE

Amicus curiae Intellectual Property Owners Association (IPO) is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in U.S. intellectual property rights.[1] IPO's membership includes more than 200 companies and more than 11,000 individuals who are involved in the association either through their companies or as inventors, authors, executives, law firms, or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO members receive about thirty percent of the patents issued by the Patent and Trademark Office to U.S. nationals. IPO regularly represents the interests of its members before Congress and the PTO and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the Appendix.[2]

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1 No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the amicus curiae, or its counsel made a monetary contribution to its preparation or submission. Both parties in this case consented to the filing of amicus briefs in support of either party or neither party by letters submitted to this Court on May 5 and 10, 2010.

2 IPO procedures require approval of positions in briefs by a three-fourth majority of directors present and voting.

INTRODUCTION

The Copyright Act is designed to fulfill Congress' constitutional mission of "securing for limited Times to Authors . . . the exclusive Right to their . . . Writings" (U.S. Constitution, Art. 1, §8). This "exclusive Right" includes, most significantly, the right to prevent, and to thereby exercise control over, the distribution of copies of their works by, among other things, preventing the importation of more than a personally carried single copy of works that are "acquired outside the United States." 17 U.S.C. §602(a).

The established law with respect to unpatented useful articles, such as the watches involved in this case, is quite different – it is generally accepted that unpatented goods that have been acquired lawfully anywhere in the world can be freely imported and sold in this country and that the maker of such goods cannot prevent such importation and sale so long as the goods are "genuine" and their sale will not deceive or confuse the consumers who purchase them.

In this case, the goods are watches bearing a tiny copyrighted design (the "Globe Design") engraved on their backs. Since the watches themselves, as useful, unpatented articles, would be ineligible for copyright protection, Respondent would not have a lawful basis for preventing their importation were it not for the Globe Design, which may have no other function or value. Because the issue was not decided below for this Court's review here, however, IPO notes that the issue of whether a copyright owner may use its exclusive rights in a design solely as a means of preventing the

importation and sale of the goods on which it appears must await a future case for resolution.

In its decision below, the Ninth Circuit Court of Appeals did not consider or pass upon the question of whether, and under what circumstances, a copyright owner may use an embedded copyrighted work to prevent the importation of genuine useful articles, but confined its decision solely to one of Petitioner's affirmative defenses: the contention that the "first sale doctrine," as embodied in section 109(a) of the Copyright Act, deprives U.S. copyright owners of their right to prevent importation of copies of works made or sold anywhere in the world. *See Omega S.A. v. Costco Wholesale Corp.*, 541 F3d 982, 990 (9th Cir. 2008). On that issue, IPO believes that the language and legislative history of the Copyright Act compel the conclusion that Congress intended to grant the U.S. copyright owner the right to prevent unauthorized importation of any copies of a work that were created and acquired under the copyright law of another country.

ARGUMENT

Point A

In General, A Copyright Owner Has The Right To Bar Unauthorized Importation Of Works Acquired Outside The United States

IPO believes that it is important to distinguish between the rules generally applicable to copies of works that are the proper subject of copyright protection, such as books, musical compositions, sound recordings,

motion pictures, graphical works and computer programs, and useful articles that are not subject to copyright or other intellectual property protection, such as the watches involved in this case. With respect to the former, the author, or his or her assignee, is granted an express statutory right to control the importation and initial sale of copies of the work in the United States. With respect to the latter, there is a well-established policy permitting the importation and distribution of genuine products that were lawfully acquired anywhere in the world.

In challenging the Ninth Circuit's decision, Costco says little about the implications of the decision with respect to copyrighted works, but focuses on the purported adverse effects that the Ninth Circuit decision would have on the importation and use of manufactured goods that are not the intended beneficiaries of the exclusive rights granted by the Copyright Act — an issue which the Ninth Circuit has yet to address. *See* Brief for the Petitioner (hereinafter "Petitioner's Opening Brief") at 46-52.[3]

Petitioner's parade of horribles misses the issue for the Court. IPO believes that the Ninth Circuit's holding was correct as a matter of statutory construction. The plain language of the Copyright Act and its legislative

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3 The only exception is Petitioner's assertion that denying the "first sale" defense to libraries that lend foreign books would expose those libraries to liability for copyright infringement. Petitioner's Opening Brief at p. 51. However, Congress specifically addressed that issue in section 602(a)(3) of the Act, which expressly permits libraries to acquire and lend out up to five copies of works acquired outside of the United States.

history compel the conclusion that section 602(a) of the Act was intended to grant the U.S. copyright owner the right to prevent the importation of copies of works that were "acquired outside of the United States." This conclusion is reinforced by the specific limited exceptions contained in section 602(a); and the broad limitation imposed by 109(a) on application of the first sale doctrine to copies "lawfully made under this title" – *i.e.*, in the United States. That result comports with the letter and legislative intent of the Copyright Act and is consistent with this Court's holding in *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998). Moreover, it will preserve and protect the rights of the authors, artists and industries that rely on copyright law to safeguard their investment in the creation, marketing and distribution of copyrighted works.

1. The language of section 602(a) of the Copyright Act and its legislative history demonstrate that it was intended to apply to all works "that have been acquired outside the United States"

The limited issue presented at this stage of the case deals solely with the effect, if any, of the "first sale doctrine," as codified in section 109(a) of the Copyright Act, on the right granted to the copyright owner in section 602(a) of the Act to prevent the unauthorized importation of works acquired outside the United States. The two provisions are entirely consistent and independent of each other. Section 109(a) addresses works made "under this title"; that is, in the United States. It says nothing about importation. Section 602

only applies to work "acquired outside the United States." It says nothing about works acquired in the United States. In *Quality King*, this Court held that the first sale doctrine codified in Section 109(a) applies to works made "under this title" in the United States, exported, then acquired abroad and imported. Neither the plain language of Section 109(a), nor the decision in *Quality King*, makes it applicable to works "not made under this title"; that is, works made outside the United States.

While Section 109(a) grants to the owner of "a particular copy lawfully made under this title" the right to "sell or otherwise dispose of possession of that copy . . .," section 602(a) provides that it is an act of infringement for anyone to *import* copies acquired abroad:

> (1) Importation. *Importation* into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that *have been acquired outside the United States* is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.
>
> (emphasis added.)

Section 602(a) goes on to provide for three express, limited exceptions to the right it grants: copies imported by governmental bodies for their own use (17 U.S.C. §602(a)(3)(A)); a single copy imported for the private use of the importer and "forming part of such person's

personal baggage" (17 U.S.C. §602(a)(3)(B)); and no more than a single copy imported by an organization "operated for scholarly, educational or religious purposes" for its archival purposes, or a combined total of no more than five copies imported by such an organization for its "library lending and archival purposes." (17 U.S.C. §602(a)(3)(C)). Those exceptions are limited even further by section 602(b), which grants the customs service the power to seize any copies of works that "would have constituted an infringement of copyright if this title had been applicable."

The argument espoused by Costco in this case, were it to be adopted, would create an implied exception to section 602(a) that is far broader than the narrow exceptions expressly allowed by Congress, permitting the owner of copies of any work that meets the requirement of 602(b) – that is that their making would not have been an infringement if they were made in the United States – to import an unlimited number of copies for any purpose without the permission of the U.S. copyright owner. *See* discussion in Petitioner's Opening Brief at 15-41. Indeed, it is so broad that the rights granted by 602(a), and its carefully drawn exceptions, would effectively be limited only to "piratical works" and, perhaps, some rare occasions where the importer of the copies is neither the owner of the copies nor its agent.

No such broad exception can reasonably be inferred from the language of the statute or its legislative history. To the contrary, in discussing the structure of section 602, the legislative history shows that Congress intended subsection 602(a) to apply to *all* works acquired abroad, and that it was only subsection 602(b) that was to be

limited to works that would not have been lawfully made had they been made in the United States:

> Section 602 details with two separate situations: importation of "piratical" articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made. The general approach of section 602 is to make unauthorized importation an act of infringement *in both* cases, but to permit the Bureau of Customs to prohibit importation only of "piratical" articles.

Joint statement by both houses of Congress: H.R. REP. NO. 1476, 94th Cong., 2d Sess. 169 (1976), reprinted in 1976 U.S. CODE CONG. & AD. NEWS 5659, 5785 and S. REP. NO. 473, 94th Cong., 1st Sess. 151 (1975), hereinafter "Joint Report" (emphasis added). Indeed, after re-stating the "general rule [of section 602(a)] that unauthorized importation is an infringement *merely* if the copies or phonorecords 'have been acquired abroad,'" (emphasis added) and then enumerating the three exemptions to that rule, the Joint Report concludes:

> If none of the three exemptions applies, *any* unauthorized importer of copies of phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution in this country has taken place.

Id. (emphasis added).

Certainly nothing in the language of section 109(a), which defines the first sale doctrine for purposes of the Copyright Act, purports to create such a broad exception to section 602(a). The relevant portion of that section reads as follows:

> Notwithstanding the provisions of Section 106(3), the owner of a particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, *to sell or otherwise dispose of the possession of that copy or phonorecord.*

17 U.S.C. §109(a) (emphasis added). In contrast to section 602(b), which authorizes seizure at the border of works that "would have constituted an infringement of copyright if this title had been applicable," section 109(a) says nothing about copies made under the laws of other countries. Nor does it purport to limit the *entire* public distribution right granted to the copyright owner under section 106(3) of the Act, but only a very specific subset of that right, granting the owner of a copy only the very specific right to "sell or otherwise dispose of possession" of the particular copy it owns. In sum, sections 109(a) and 602(a) are very different, both in terms of the copies to which they apply and the exclusive rights that they affect, and there is no overlap in their application which would support a conclusion that section 109(a) was intended to create a massive exception to the right of U.S. copyright owners under section 602(a) to treat the importation of all works acquired outside of the United States (subject to the limited express exceptions it contains) as an infringing act.

2. This Court's Decision in *Quality King* does not require a different result

This Court's decision in *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998) is entirely consistent with the conclusion of the Ninth Circuit in this case and, if anything, supports the conclusion that application of the first sale doctrine is limited in its application to copies made in this country. In *Quality King*, plaintiff, L'Anza manufactured hair care products in California bearing a copyrighted label and sold them to distributers around the world. Quality King acquired some of the products that L'Anza had exported to foreign markets[4] and reimported them into the United States for domestic sale in this country at a significantly reduced price.

Although the Court held that section 602(a) did not prevent the re-importation of the copies involved in that case, the opinion makes it quite clear that this Court would have reached a different result had the copies involved not been made in the United States. Specifically, in response to the argument advanced by L'Anza that applying the first sale doctrine would render section 602(a) superfluous, Justice Stevens' opinion for

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4 It was unclear from the record in *Quality King* whether legal title to the goods formally passed to the foreign distributors in the United States, but it was clear that the goods and the labels were made and shipped directly from L'Anza's facilities in California. Thus, the copies were unquestionably "lawfully made under this title" as required by section 109(a) and, at least in the first instance, were not "acquired outside the United States," a predicate for infringement under section 602(a).

the Court points to three instances where the section would still apply:

> First, even if *§ 602(a)* did apply only to piratical copies, it at least would provide the copyright holder with a private remedy against the importer, whereas the enforcement of *§ 602(b)* is vested in the Customs Service. Second, because the protection afforded by *§ 109(a)* is available only to the "owner" of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a *§ 602(a)* action against any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful. [footnote omitted] *Third, § 602(a) applies to a category of copies that are neither piratical nor "lawfully made under this title." That category encompasses copies that were "lawfully made" not under the United States Copyright Act, but instead, under the law of some other country*

523 U.S. at 146-7 (emphasis added). Similarly, in its discussion of the potential adverse effect on the publishing industry (a matter of particular concern to IPO), the opinion once again emphasizes that copies made in other countries would not qualify for application of the first sale doctrine:

> Even in the absence of a market allocation agreement between, for example, a publisher of the U.S. edition and a publisher of the

> British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive U.S. distribution rights — enforceable under the Act — to the publisher of the U.S. edition and the exclusive British distribution rights to the publisher of the British edition, [footnote omitted] however, presumably *only those made by the publisher of the U.S. edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).*

523 U.S. at 146-7 (emphasis added).

Finally, the opinion's statement in response to the argument that application of the first sale doctrine to section 602(a) would make the exceptions to section 602(a) superfluous resolves any conceivable doubt on the point:

> The argument that the statutory exceptions to *§ 602(a)* are superfluous if the first sale doctrine is applicable rests on the assumption that the coverage of that section is co-extensive with the coverage of *§ 109(a)*. But since it is, in fact, broader because it encompasses copies that are not subject to the first sale doctrine — *e.g., copies that are*

> *lawfully made under the law of another country* — the exceptions do protect the traveler who may have made an isolated purchase of a copy of a work that could not be imported in bulk for purposes of resale.

523 U.S. at 148 (emphasis added).

In her concurring opinion in *Quality King*, Justice Ginsburg emphasized that the Court's holding was limited to the facts presented in that case, where the copies were made in the United States and exported by the copyright owner, and that it does not apply to copies that were neither made nor first sold in the United States:

> This case involves a "round trip" journey, travel of the copies in question from the United States to places abroad, then back again. I join the Court's opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.

Id. at 1135 (*citing* W. Patry, *Copyright Law and Practice*, 166-170 (1997 Supp.) (commenting that provisions of Title 17 do not apply extraterritorially unless expressly so stated, hence the words "lawfully made under this title" in the "first sale" provision, 17 U.S.C. §109(a), must mean "lawfully made in the United States"). *See also* P. Goldstein, *Copyright* §16.0, 16:1-16:2 (2d ed. 1998) ("Copyright protection is territorial. The rights granted by the United States Copyright Act extend no farther than the nation's borders.")

To be sure, IPO recognizes that strictly limiting the application of the first sale doctrine to copies made in the United States could arguably lead to unjustified and unintended consequences with respect to works that have been lawfully imported with the consent of the copyright owner, limiting their alienability in the hands of consumers and affecting other rights, such as those set forth in section 109(c),[5] that apply only to copies "lawfully made under this title." But these concerns can easily be avoided by establishing a presumption that, when a United States copyright owner authorizes the importation of a work made outside the United States, it is intended, in the absence of specific evidence to the contrary, to vest the owner with the same rights as the statute affords to owners of copies that were made in this country.

In all events, none of those issues is now before the court. The issue in this case is simply whether, despite the clear language of section 602(a), the first sale doctrine applies generally to permit the unauthorized importation of copies of works that were acquired abroad and were not lawfully made pursuant to United States copyright law. And, it is clear that none of the language of the statute, its legislative history nor this Court's decision in *Quality King* supports such a conclusion.

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5 Section 109(c) grants the owner of a copy "lawfully made under this title" the right to "display that copy publicly, either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located."

3. The practices and economics of the copyright-based industries require that the copyrights in different countries be treated separately and that rights granted in one country do not apply in another.

Permitting the unauthorized importation of copies of works first made and sold outside the United States will have broad negative implications to the copyright-based industries that are such major contributors to this country's economic strength.[6] While it is common for copyright owners to authorize publication and distribution of their works in many countries throughout the world, there is a strong economic need to maintain their ability to assure that their publication in other countries will not result in flooding the United States market with the foreign versions of their works.

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6 *See, e.g.*, July 20, 2009 economic report entitled *Copyright Industries in the U.S. Economy: The 2003-2007 Report*, the twelfth study written by Stephen Siwek of Economists Inc. for the International Intellectual Property Alliance, a coalition of seven trade associations representing the copyright-based industries. The report follows the statistical methodology outlined by WIPO in its *2003 Guide on Surveying the Economic Contribution of the Copyright-Based Industries*, and concludes that the latest data shows that the core U.S. copyright industries accounted for an estimated $889.1 billion or 6.44% of the U.S. gross domestic product in (GDP) 2007. These core industries were responsible for 22.74% of the real economic growth achieved by the U.S. economy in 2006-2007. In addition, the core copyright industries employed 5.6 million workers (4.05% of U.S. workers) in 2007. Finally, estimated 2007 foreign sales and exports of the core copyright industries increased to at least $126 billion, leading other major industry sectors.

Recent developments in the textbook market provide a good example of the consequences that could result from eliminating the right to prevent importation of copies that are made abroad. In a July 2005 report issued by the United States Government Accountability Office on the price of college textbooks, the GAO stated:

> Textbooks developed for certain academic disciplines are more likely to have broader international appeal than others, according to publishers. For example, the content in many mathematics, science and engineering textbooks is essentially global in its applicability ... If international demand for a textbook exists, publishers may sell the same textbook that is sold in the United States, an international edition produced with less expensive materials, or an adaptation of the textbook that includes locally relevant examples. In international markets where the primary language spoken is not English, publishers may sell the rights to translate the textbook into the local language.

U.S. Government Accountability Office, *College Textbooks: Enhanced Offerings Appear to Drive Recent Price Increases*, GAO-05-806, pp. 21-22 (2005), *available at* http://www.gao.gov/new.items/d05806.pdf. Finding that publishers consider many different factors in pricing the textbooks sold abroad, including the quality of the reproduction and materials used, income level, cost of living, strength of currency, demand, etc., the report observes:

Publishers told us that they have to be particularly concerned about pricing at a level that is affordable to students in developing countries because of the threat of piracy in these countries.

*****

In addition to income levels, differences in instructional styles and systems of higher education influence publishers' pricing decisions. For example, publishers told us that even though average income levels are high in the United Kingdom, textbooks tend to sell for lower prices than in the United States because the demand for textbooks is lower. Specifically, they said that instructors in the United Kingdom are more likely to recommend several textbooks for students to consider, rather than requiring a specific textbook. Additionally, publishers told us that there is less demand for electronic and print supplements to support teaching and learning in non-U.S. markets. Publishers also told us that because higher education funding tends to be highly subsidized in the United Kingdom and European countries, students may not be willing to pay out-of-pocket costs for textbooks at U.S. prices. According to publishers, textbook prices in Canada and Australia tend to be similar to those in the United States because the instructional styles are similar in that instructors select specific textbooks for their classes. However, publishers noted that

> in these markets there is also greater demand for U.S. textbooks that have been adapted to the local culture or economy. In order for international pricing differences to persist, there must be barriers that limit mass importation of less expensive U.S. textbooks from other countries.

Id. at 22-23.

As these materials demonstrate, the practical effect of broadening the availability of a defense based on the first sale doctrine to an unauthorized importer would likely be that copyright owners would only authorize sales of copies of their works in jurisdictions in which they could command a relatively high price and refuse to sell them anywhere else, lest they undercut the market for their works elsewhere. The dissemination of copyrighted works internationally, and particularly at reduced prices in developing nations, would suffer. *See, e.g.*, John O'Neil, *Getting Textbooks Cheaper from India*, N. Y. Times, Mar. 29, 2006, *available at* http://www.nytimes.com/2006/03/29/education/29textbooks.html (discussing the concerns of the Indian government that the widespread importation into the United States of textbooks sold at reduced prices in India will lead to a return to "the bad old days," when to prevent infringement, American publishers sold only out-of-date textbooks to overseas markets).

The need to tailor their products and their pricing to maximize the distribution of their works throughout the world has led to the longstanding and established practice of copyright-based industries treating separate

nations as separate markets. This Court expressly recognized the widespread and prevalent nature of that practice in *Quality King*, when it referenced comments made by the Register of Copyrights in a 1961 report to Congress:

> When arrangements are made for both a U.S. edition and a foreign edition of the same work, the publishers frequently agree to divide the international markets. The foreign publisher agrees not to sell his edition in the United States, and the U.S. publisher agrees not to sell his edition in certain foreign countries.

Quality King, 523 U.S. at 147 (citing Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 87th Cong., 1st Sess., 125-126 (H.R. Judiciary Comm. Print 1961). Remarking on these comments by the Register of Copyright, the *Quality King* court further elaborated that, so long as the application of section 109(a) is limited to copies made in the United States, these longstanding industry practices would be preserved:

> Even in the absence of a market allocation agreement between, for example, a publisher of the U.S. edition and a publisher of the British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive United States distribution rights - enforceable under the Act - to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition,

> . . . presumably only those made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British [i.e., foreign] edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

Id. at 148.

The commercial practices of the industries that rely on copyright to protect their products are structured in recognition of the principle that the holding of a copyright, either by ownership or exclusive license, in one jurisdiction confers no rights in another. As Justice Stevens observed in *Quality King*, copyright owners may exclusively license or assign their rights to different publishers in different jurisdictions under different terms. As a result, the holders of the rights in different jurisdictions may be unrelated and even competitors with each other in different markets. Thus, it would be extremely disruptive, and destructive of the value of United States copyrights, if copies of works made in other countries could be freely imported and resold in this country without the consent of the United States copyright owner.

Section 602(a) of the Copyright Act was enacted to preserve the established and economically beneficial practice of treating the copyright in each country as different and independent, so that its exercise in one

country confers no rights in another. It contains three limited and express exceptions that are carefully designed to minimize any adverse impact of foreign distribution of copies on the rights of the U.S. copyright owner, allowing only a limited class of persons to import a limited number of copies for very limited purposes. The extension of the first sale doctrine to permit the importation of commercial quantities of copies made and acquired in other countries would subvert the congressional intent of section 602(a) of the Copyright Act and the prevalent commercial practices of the core copyright industries, which treat the copyright in each country as separate and distinct, so that the exercise of rights in one country has no adverse affect on the rights in another.

Point B

While Holding the First Sale Doctrine Inapplicable, This Court Should Expressly Reserve Judgment on the Question of Whether It Is Appropriate to Use Copyright Law To Prevent the Importation of "Gray Market" Goods.

Many of the arguments asserted in favor of extending the first sale doctrine to copies made in other countries are premised on the assumption that the first sale doctrine is the only avenue available to prevent Omega from imposing unreasonable restrictions on the importation and free alienation of its watches. However, in its memorandum in opposition to Omega's motion for summary judgment filed in the district court, Costco raised several defenses in addition to the first sale doctrine, including claims that Omega engaged in

"copyright misuse." Defendant Costco Wholesale Corporation's Memorandum of Points and Authorities in Opposition to Omega's Motion for Summary Judgment at pp. 21-25. In particular, Costco argued that the application of section 602(a) to the watches involved in this case constituted a form of "copyright misuse" and that, under these circumstances, the Globe Design, as an inextricable component of a "useful article," is not copyrightable. *Id.* In its decision, however, the Ninth Circuit confined its conclusions solely to the availability the "first sale" defense, and remanded the case for further proceedings. Accordingly, the other defenses raised *by Costco* are not now before this Court.

Although the Court cannot, in the present procedural context of this case, take a final position on the applicability of Costco's other defenses, it is important to recognize that neither the Ninth Circuit decision, nor an affirmance of that decision by this Court, will foreclose those defenses. Acknowledging the potential availability of a "copyright misuse" or copyrightablility defense would make it clear that this Court has not foreclosed consideration of the issue of whether copyright protection is appropriate for the watches at issue in this particular case without subverting the language and legislative policy of the Copyright Act as a whole or the established practices of the core copyright industries who rely on the provisions of section 602(a) of the Copyright Act to support and protect the value of their United States copyrights.

CONCLUSION

For the foregoing reasons, IPO respectfully requests that the Court hold that the first sale doctrine is inapplicable to works made and acquired outside the United States. In doing so, however, the Court should expressly note that it is not holding that section 602(a) of the Copyright Act necessarily applies to the watches involved in this case, but that there may be other defenses that the courts below have not yet had an opportunity to consider.

Respectfully Submitted,

DOUGLAS K. NORMAN, *President*
KEVIN RHODES, *Chair*
AMICUS BRIEF COMMITTEE
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, NW
Suite 1150
Washington, DC 20005
(202) 507-4500

GEORGE L. GRAFF
Counsel of Record
112 Holly Place
Briarcliff Manor, NY 10510
(914) 762-3706
georgegraff@paulhastings.com

VICTORIA A. CUNDIFF
REBECCA K. MYERS
LAURA K. ISENBERG
PAUL, HASTINGS, JANOFSKY
& WALKER, LLP
75 East 55 Street
New York, NY 10022
(212) 318-6000

APPENDIX

APPENDIX[1] — MEMBERS OF THE BOARD OF DIRECTORS INTELLECTUAL PROPERTY OWNERS ASSOCIATION

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AT&T

Michael L. Glenn
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Koninklijke Philips Elec. N.V.

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Soonhee Jang
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Michael Jaro
Medtronic, Inc.

Jennifer K. Johnson
ZymoGenetics, Inc.

Philip S. Johnson
Johnson & Johnson

George William Johnston
Hoffman-La Roche Inc.

Lisa K. Jorgenson
STMicroelectronics, Inc.

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1. IPO procedures require approval of positions in briefs by a three-fourths majority of directors present and voting.

Appendix

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Eastman Chemical Co.

Krish Gupta
EMC Corporation

David J. Koris
Shell International B.V.

Michelle Lee
Google Inc.

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Apple Inc.

Jonathan P. Meyer
Motorola, Inc.

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Douglas K. Norman
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Charles M. Kinzig
GlaxoSmithKline

Dennis C. Skarvan
Caterpillar Inc.

Russ Slifer
Micron Technology, Inc.

Wayne Sobon
Accenture Global Services GmbH

Daniel J. Staudt
Siemens Corp.

Brian K. Stierwalt
ConocoPhillips

Thierry Sueur
Air Liquide

James. J. Trussell
BP America, Inc.

Danise Van Vuuren-Nield
The Coca-Cola Co.

Roy Waldron
Pfizer, Inc.

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3M Innovative Properties Co.

Mark L. Rodgers
Air Products & Chemicals, Inc.

Manny Schecter
IBM Corp.

Robert R. Schroeder
Mars Incorporated

David M. Simon
Intel Corp.

Michael Walker
DuPont

BJ Watrous
Hewlett-Packard Co.

Stuart L. Watt
Amgen, Inc.

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Paul D. Yaeger
Abbott Laboratories

AMICUS CURIAE BRIEF

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IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA, S.A.,
Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF FOR THE MOTION PICTURE ASSOCIATION OF AMERICA, INC. AND THE RECORDING INDUSTRY ASSOCIATION OF AMERICA AS AMICI CURIAE IN SUPPORT OF RESPONDENT

JENNIFER L. PARISER
RECORDING INDUSTRY
ASSOCIATION OF AMERICA
1025 F Street, NW
Washington, DC 20004
(202) 775-0101
jpariser@riaa.com
Counsel for the RIAA

SETH P. WAXMAN
Counsel of Record
RANDOLPH D. MOSS
CATHERINE M.A. CARROLL
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com
Counsel for the MPAA

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INTEREST OF AMICI CURIAE[1]

The Motion Picture Association of America, Inc. (MPAA) is a not-for-profit trade association founded in 1922 to address issues of concern to the U.S. motion picture industry. Its members include Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, Walt Disney Studios Motion Pictures, and Warner Bros. Entertainment Inc. MPAA's members and their affiliates are the leading producers and distributors of filmed entertainment in the theatrical, television, and home entertainment markets.

The Recording Industry Association of America (RIAA) is a nonprofit trade association founded in 1952 representing the American recording industry. RIAA's record company members include Universal Music Group, Sony Music Entertainment, Warner Music Group, and EMI Music North America. RIAA's members create, manufacture, and/or distribute approximately eighty-five percent of all legitimate sound recordings produced and sold in the United States.

Copyright protection is essential to the health of the motion picture and music industries and the U.S. economy as a whole. Were this Court to reverse thirty years of settled law and accept Costco's interpretation of the first sale doctrine, MPAA's and RIAA's members and their affiliates could face a significant threat of harm from unauthorized importation into the United

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[1] Letters consenting to the filing of amicus briefs have been filed by the parties with the Clerk of the Court. No counsel for a party authored this brief in whole or in part, and no person, other than amici, their members, or their counsel, made a monetary contribution to the preparation or submission of this brief.

States of copies of protected works that are manufactured abroad for distribution in foreign markets. Such unauthorized importation could deprive U.S. copyright holders of substantial value of their intellectual property. If accepted, Costco's view could, thus, upset the balance of rewards and incentives Congress struck in enacting the Copyright Act. Although this case arises in the context of importation of ordinary commercial goods, the Court's holding will apply equally in cases involving all sorts of creative works, including motion pictures and sound recordings. Viewed in that context, Costco's proposed interpretation of the first sale doctrine could significantly undermine protection of the types of creative works that lie at the core of what copyright law is meant to protect.

SUMMARY OF ARGUMENT

Pursuant to its constitutional authority to "promote the Progress of Science and useful Arts," U.S. Const. art. I, §8, cl. 8, Congress enacted (and has periodically amended) the Copyright Act for the purpose of stimulating creativity for the public benefit. Of particular relevance, Congress has granted copyright holders an exclusive right to control the first sale of tangible copies of protected works, including the right to obtain whatever economic benefits flow from that first sale. In the run-of-the-mill case, once that first sale of a particular tangible copy is made and the copyright holder has realized the economic benefit afforded under the Copyright Act, it has exhausted its exclusive rights and may no longer control further sales of that copy of the protected work.

Consistent with this rationale, §109(a) of the Copyright Act limits the availability of the first sale defense to cases involving tangible copies of protected works

that were "lawfully made under" the Act. Given its natural meaning and the presumption that U.S. law does not apply extraterritorially, that language is properly read to refer to copies made in the United States. The contrary reading advanced by Costco is inconsistent with the text and purposes of the Copyright Act and the rationale underlying the first sale doctrine. If a copyright owner makes copies of a protected work outside the United States for distribution outside the United States, the copyright owner has not exercised or benefited from—much less exhausted—its rights under U.S. copyright law, and it has not reaped the full economic benefit that Congress intended to serve as an incentive for creative activity. Accordingly, nearly all courts to have addressed the issue have applied §109(a) only to copies made in the United States, and Congress has ratified that interpretation by amending the Copyright Act on numerous occasions without disturbing that construction.

If accepted, Costco's interpretation of §109(a) could thwart the purposes of the Copyright Act and deprive copyright owners of the value of protection under U.S. law. In the motion picture industry, for example, a studio will frequently treat national markets separately for purposes of theatrical and home video releases. The studio's ability to do so can be critical to a film's commercial success. In the music industry, recordings are often released at different times in different countries, depending on the strategic considerations of the local territory. Unauthorized importation could undercut these important practices and reduce the value of U.S. movie and music copyrights. Far from achieving the economic benefits that Costco hypothesizes, extending the first sale defense to copies that were made abroad for distribution in a foreign market would thus prevent

U.S. copyright holders from obtaining the economic reward Congress intended to provide under U.S. law.

ARGUMENT

I. THE FIRST SALE DOCTRINE DOES NOT APPLY TO INFRINGING IMPORTS MANUFACTURED ABROAD

A. The Text, History, And Purposes Of The Copyright Act Support The Judgment Below

In *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135 (1998), after considering the text and structure of the Copyright Act and the history and purposes of the first sale doctrine, this Court held that the first sale defense is available in cases of "round trip" reimportation of copies of protected works that are manufactured in the United States and sold or distributed abroad. This case presents the distinct question whether the first sale defense applies also to copies of protected works that are manufactured and distributed abroad and imported into the United States without the copyright owner's authorization. While the issue is different, the same factors should guide the Court's analysis: Here, the text, history, and purpose of the Copyright Act and the rationale underlying the first sale doctrine confirm that the first sale defense does not apply to copies manufactured and sold outside the United States.

1. The text of §109(a) limits the first sale defense to copies made in the United States

The starting point in interpreting any statute is its text. *Lamie* v. *United States Tr.*, 540 U.S. 526, 534 (2004); *see also Quality King*, 523 U.S. at 143. "[W]hen the statute's language is plain, the sole function of the

courts—at least where the disposition required by the text is not absurd—is to enforce it according to its terms." *Hartford Underwriters Ins. Co.* v. *Union Planters Bank, N.A.*, 530 U.S. 1, 6 (2000) (internal quotation marks omitted). Here, the relevant language is clear.

The first sale doctrine, as codified at 17 U.S.C. §109(a), provides that notwithstanding the copyright owner's exclusive right to distribute copies of a protected work under 17 U.S.C. §106(3),

> the owner of a particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

(Emphasis added.) By its plain terms, this affirmative defense applies only to copies "lawfully made under" Title 17 of the United States Code. When given its natural reading, that language limits the first sale defense to those tangible copies that are made in a manner that is authorized by the U.S. Copyright Act. A copy that is not *subject to* the U.S. Copyright Act cannot be *lawfully made under* that Act.

The making of a copy outside the United States, however, is not subject to U.S. law and, thus, a copy made abroad cannot be "lawfully made under" the Copyright Act.[2] "It is a 'longstanding principle of

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[2] *Cf. American Banana Co.* v. *United Fruit Co.*, 213 U.S. 347, 356 (1909) ("[T]he character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done."), *overruled on other grounds by Continental Ore Co.* v. *Union Carbide & Carbon Corp.*, 370 U.S. 690, 704-705 (1962).

American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'" *Morrison* v. *National Austl. Bank Ltd.*, 130 S. Ct. 2869, 2877 (2010) (quoting *EEOC* v. *Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) (*Aramco*)). Accordingly, unless Congress has "'clearly expressed'" an "'affirmative intention ...' to give a statute extraterritorial effect," courts "'presume [the statute] is primarily concerned with domestic conditions.'" *Id.*; *see also Restatement (Second) of Foreign Relations Law of the United States* §38 (1965).

As the Court of Appeals observed, this presumption carries particular weight in the intellectual property context, where the need to avoid international conflicts of law is especially acute. Pet. App. 12a. Thus, the Supreme Court recognized in 1908 that the Copyright Act does not govern "personal action beyond the sphere of its control," *United Dictionary Co.* v. *G. & C. Merriam Co.*, 208 U.S. 260, 264 (1908), and since then, "[*e*]*very* court to have examined the issue has held that Congress did not intend the Copyright Act to be applied extraterritorially," 7 *Patry on Copyright* §25:86 (2010). *Cf. Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 454-455 (2007) (explaining that the "presumption that United States law governs domestically but does not rule the world applies with particular force in patent law," in part because "foreign law 'may embody different policy judgments about the relative rights of inventors, competitors, and the public'" in intellectual property).

Here, nothing in §109(a) clearly expresses any intent to extend the protections or prohibitions of U.S. copyright law to the international manufacture or distribution of copies of creative works. When Congress

has intended a law to apply extraterritorially—including the Copyright Act—it has said so expressly. *See, e.g.*, 17 U.S.C. §§104(b)(2), 602(b); *Aramco*, 499 U.S. at 258-259 (citing statutes). Accordingly, because the Copyright Act generally does not apply abroad, and because nothing in §109(a) overcomes this presumption, the phrase "lawfully made under this title" must be read to apply only to those tangible copies that were made domestically. Leading copyright treatises thus agree that the phrase "lawfully made under this title" must mean "lawfully made in the United States." Patry & Martin, *Copyright Law and Practice* 182-183 (2000 Supp.); *see also id.* at 183 n.84, 210-213.[3]

2. Construing §109(a) to apply only to copies made in the United States is consistent with the purposes of the Copyright Act and the first sale doctrine

Consistent with its constitutional underpinnings, *see* U.S. Const. art. I, §8, cl. 8, the Copyright Act was designed to "stimulate artistic creativity for the general public good" by "secur[ing] a fair return for an author's

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[3] *See also* 2 *Nimmer on Copyright* §8.12[B][6][c] (rev. ed. 2009) (concluding after *Quality King* that the Copyright Act "should still be interpreted to bar the importation of gray market goods that have been manufactured abroad" (footnote omitted)); 4 *Patry on Copyright* §13:44 (Copyright Act "bars only the importation of copies that were acquired outside the United States and that were not 'lawfully made under this title,' i.e., were not made in the United States"); 2 *Goldstein on Copyright* §7.6.1.2(a) (3d ed. Supp. 2010) (under *Quality King*, "the first sale defense is unavailable to importers who acquire ownership of gray market goods made abroad and to resellers who acquire ownership in the United States of copies lawfully made abroad but unlawfully imported into the United States").

creative labor." *Twentieth Century Music Corp.* v. *Aiken*, 422 U.S. 151, 156 (1975). The Copyright Act "must be construed in light of this basic purpose." *Id.*

To fulfill this purpose, the Copyright Act grants to the author of a creative work an exclusive right to control the first sale or distribution of any tangible copies of the protected work. 17 U.S.C. §106(3). That exclusive right serves "'to motivate the creative activity of authors and inventors by the provision of a special reward,'" while also "'allow[ing] the public access to the products of their genius after the limited period of exclusive control has expired.'" *Harper & Row, Publishers, Inc.* v. *Nation Enters.*, 471 U.S. 539, 546 (1985); *see also Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (goal of copyright law is "'to stimulate the creation and publication of edifying matter'"). The "special reward" that the Copyright Act provides to a copyright owner is the right to obtain a royalty for his or her work and the increased market return made possible during the period of exclusivity.

The first sale doctrine limits a copyright owner's ability to control future sales of copies of a protected work, but only after the copyright owner has obtained the benefit (or royalty) to which it is entitled *under U.S. law*. Once the copyright owner has placed a particular copy into the stream of commerce *and obtained the economic reward made possible by the copyright*, the copyright owner has "exhausted his exclusive statutory right to control its distribution," and the copy may be freely sold and resold by subsequent purchasers. *Quality King*, 523 U.S. at 152; *see also Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 349-351 (1908). The doctrine thus enables copyright owners to realize the economic reward Congress intended to provide as incentive for creative activity, while limiting any restraints

on alienation and trade of a particular copy to its first sale.

This rationale does not apply where copies are manufactured and distributed abroad. A copyright owner who makes and distributes copies of a protected work exclusively in foreign markets does not benefit from U.S. copyright protection at the first sale and thus cannot be said to have "exhausted" his exclusive rights. *Quality King*, 523 U.S. at 152. While the copyright owner who sells copies in a foreign country will presumably realize some economic benefit under the laws of that country, that benefit is distinct from the benefit Congress intended to make available in the United States as an incentive to promote creative activity. *See Harper & Row*, 471 U.S. at 546. Yet under Costco's view, that copyright owner would be deemed to have exhausted its rights under U.S. law before it has ever exercised or benefited from them.

Construing the phrase "lawfully made under this title" in §109(a) to encompass copies made and sold abroad, outside the protection of U.S. copyright law, would thus thwart the Copyright Act's purpose by depriving copyright owners of the economic benefit made possible by the exclusive right conferred by U.S. law. *See Burke & Van Heusen, Inc.* v. *Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964) ("[T]he ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use."). When copies are made and sold abroad, the creator cannot be said to have exercised, much less exhausted, its rights under the U.S. Copyright Act. *See* 7 *Patry on Copyright* §25:18 ("For purposes of the first sale doctrine ... copyright is quite 'territorial' since an authorized sale

or other distribution of a copy ends the copyright owner's control in that territory (*but not others*) over further distribution or public display of the copy." (emphasis added)). The Court of Appeals' interpretation of §109(a) thus best reflects the purposes of the Copyright Act and the rationale underlying the first sale doctrine.

3. Courts have long held that the first sale doctrine does not apply to copies made and sold abroad, and Congress has acquiesced in that interpretation

In holding that the first sale doctrine does not apply to copies manufactured and distributed outside the United States, the Court of Appeals followed settled precedent. Pet. App. 7a-10a. This interpretation of the 1976 Copyright Act was first adopted in 1983, and nearly all subsequent decisions have adhered to that view. Although Congress has amended the Copyright Act numerous times, it has refrained from revising §109(a) to overturn or modify that established construction. In light of this history, the long-standing construction of §109(a)—reaffirmed by the Court of Appeals below—is entitled to particular respect.

The first case to consider the relationship between the prohibition on unauthorized importation in 17 U.S.C. §602(a) and the first sale defense of §109(a) was *Columbia Broadcasting System, Inc.* v. *Scorpio Music Distributors, Inc.*, decided in 1983. 569 F. Supp. 47 (E.D. Pa. 1983). The district court there held that the phrase "lawfully made under this title" in §109(a) limits the first sale defense to copies manufactured and sold within the United States. *Id.* at 49. In so holding, the court relied on the text of §109(a) and the presumption against extraterritorial application of U.S. law. *Id.* The court further reasoned that a contrary interpretation

"would undermine the purpose of the statute" by precluding the copyright owner from "exercis[ing] control over copies of the work which entered the American market in competition with copies lawfully manufactured and distributed under this title." *Id.*

The Court of Appeals for the Third Circuit affirmed the district court's holding in *Scorpio* without comment, and courts in that circuit have continued to follow that rule in cases involving copies manufactured and distributed abroad. *Scorpio Music Distribs., Inc.* v. *CBS, Inc.*, 738 F.2d 424 (3d Cir. 1984); *see also, e.g., T.B. Harms Co.* v. *Jem Records, Inc.*, 655 F. Supp. 1575, 1582-1583 (D.N.J. 1987) (following *Scorpio*); *cf. Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 (3d Cir. 1988) (distinguishing *Scorpio*). Other courts have similarly declined to apply §109(a) where copies are manufactured and sold overseas and then imported into the United States without the authorization of the copyright owner. *See, e.g., BMG Music* v. *Perez*, 952 F.2d 318, 319 (9th Cir. 1991); *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477, 481-482 (9th Cir. 1994); *Summit Tech., Inc.* v. *High-Line Med. Instruments Co.*, 922 F. Supp. 299, 312 (C.D. Cal. 1996); *Microsoft Corp.* v. *Big Boy Distrib. LLC*, 589 F. Supp. 2d 1308, 1317 (S.D. Fla. 2008); *Swatch S.A.* v. *New City Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006); *see also* Resp. Br. 23 n.8.

Against the backdrop of this precedent, Congress has amended the Copyright Act on numerous occasions, yet it has never overturned or modified courts' construction of the phrase "lawfully made under this title" or otherwise expanded the scope of the first sale defense.

Congress has amended the Copyright Act of 1976 sixty-four times since the statute's enactment.[4] Many of those amendments were adopted in direct response to judicial interpretations of the Act. *See, e.g.*, 1 *Patry on Copyright* §1:92 (describing 1992 amendments to fair use doctrine responding to two Second Circuit decisions); *id.* §1:96 (describing 1997 amendment overturning *La Cienega Music Co.* v. *ZZ Top*, 53 F.3d 950 (9th Cir. 1995)); *id.* §1:101 (describing narrowly tailored 1998 legislative response to *MAI Systems Corp.* v. *Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993)). Similarly, Congress has frequently amended the Act in response to changes in technology, developments in international law, or emerging policy concerns.[5]

Indeed, Congress has amended both the first sale doctrine in §109(a) and the prohibition on unauthorized importation in §602 in response to judicial decisions or other developments without revising courts' interpretation of "lawfully made under this title." For example, prompted by the advent of the compact disc, Congress added subsection (b) to §109 in 1984 to create an exception to the first sale doctrine in the context of rental, lease, or lending of sound recordings. *See*

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[4] *See* U.S. Copyright Office, *Statutory Enactments Contained in Title 17 of the* United States Code, http://www.copyright.gov/title17/92preface.html (listing amendments); 1 *Patry on Copyright* §§1:71-115 (discussing Act's statutory history).

[5] *See, e.g.*, North American Free Trade Agreement Implementation Act, Pub. L. No. 103-182, 107 Stat. 2057, 2114-2115 (1993) (amending 17 U.S.C. §109 and enacting 17 U.S.C. §104A); Semiconductor Chip Protection Act of 1984, Pub. L. No. 98-620, tit. 3, 98 Stat. 3347-3356 (adding Title 17, chapter 9); Satellite Home Viewer Act of 1988, Pub. L. No. 100-667, tit. 2, 102 Stat. 3949-3960 (amending Title 17 in light of changing satellite dish technology).

Record Rental Amendment of 1984, Pub. L. No. 98-450, §2, 98 Stat. 1727; *see also* 1 *Patry on Copyright* §1:86. Congress adopted a similar amendment in 1990 to revise the first sale doctrine in the context of the commercial rental of software. *See* Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, tit. 8, 104 Stat. 5134-5137 (amending §109(b) and adding §119(e)). Among other things, that amendment overturned a Fourth Circuit decision concerning the operation of the first sale doctrine in the context of coin-operated arcade games. 1 *Patry on Copyright* §1:91. In 1994, Congress amended §109(a) to accommodate new provisions on copyright restoration adopted pursuant to multilateral agreements. *See* Uruguay Round Agreements Act, Pub. L. No. 103-465, §514(b), 108 Stat. 4809, 4981 (1994). And, more recently, Congress amended §602 to boost copyright owners' protection from unauthorized importation. *See* Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, §105, 122 Stat. 4256, 4259-4260.

Courts presume that Congress is "aware of ... earlier judicial interpretations and, in effect, adopt[s] them" when it revises statutory language without reversing the judicial construction. *Keene Corp.* v. *United States*, 508 U.S. 200, 212 (1993) (citing *Lorillard* v. *Pons*, 434 U.S. 575, 580 (1978)); *see also Shepard* v. *United States*, 544 U.S. 13, 23 (2005). Here, Congress has shown its willingness to amend the Copyright Act in response to judicial decisions construing the Act. Because it has not done so with respect to the applicability of the first sale doctrine to copies manufactured and sold abroad, the governing presumption is that Congress is aware of courts' interpretation of §109(a) and has seen no reason to reverse it. *Keene*, 408 U.S. at 212.

B. Costco's Arguments Lack Merit

1. *Quality King* does not support Costco's interpretation of §109(a)

Costco relies heavily (Br. 27-40) on this Court's decision in *Quality King* to contend that the first sale doctrine applies to copies made outside the United States. The decision holds no such thing.

The copies at issue in *Quality King* were manufactured in the United States, then distributed abroad before being reimported into the United States without the copyright owner's authorization. 523 U.S. at 138-139; *see also id.* at 154 (Ginsburg, J., concurring). Whether and how the first sale doctrine would apply to copies manufactured abroad, where the copyright owner had never made or authorized any sale in the U.S. market, was not before the Court. As Justice Ginsburg's concurrence made explicit, the Court's decision did not "resolve cases in which the allegedly infringing imports were manufactured abroad." *Id.* at 154; *see also Cohens* v. *Virginia*, 19 U.S. (6 Wheat.) 264, 399-400 (1821) (rulings of this Court do not extend beyond the facts presented); *United States* v. *Stanley*, 483 U.S. 669, 680 (1987) ("no holding can be broader than the facts before the court"). The opinion for the Court did not contest this conclusion. To the contrary, the Court emphasized that §109(a) "does not apply to 'any copy'; it applies only to a copy that was 'lawfully made under this title,'" 523 U.S. at 143 n.9, and that "the owner of goods lawfully made *under the Act* is entitled to the protection of the first sale doctrine in an action in a United States court," *id.* at 145 n.14 (emphasis added). Significantly, the Court distinguished between copies "lawfully made under this title" and copies "'lawfully made' not under the United States Copyright Act,

but instead, under the laws of some other country." *Id.* at 147. As Omega has demonstrated (Br. 18-22), the Court's reasoning in *Quality King* thus supports the Court of Appeals' decision below, not Costco's interpretation of §109(a).

Nor does the Court's limited reference to the presumption against extraterritorial application in *Quality King* support Costco's argument (Br. 28). In *Quality King*, the Court observed that applying §109(a) to copies manufactured in the United States but initially sold abroad would not constitute an extraterritorial application of the Copyright Act. 523 U.S. at 145 n.14. In doing so, the Court assumed that the copies at issue were "lawfully made under the Act" and *subsequently* sold abroad. *Id.* The Court's interpretation thus did not extend U.S. copyright law to govern the making of copies abroad (as Costco's interpretation would in this case).

2. Costco's position is inconsistent with the language of §109(a) and finds no support in other sections of the Copyright Act

Unlike this Court's opinion in *Quality King*, which treated the plain text of the Copyright Act as dispositive, Costco fails to reconcile its position with the text of §109(a). Costco's principal textual argument (Br. 15-16) is that because Title 17 permits any U.S. copyright owner to make and distribute copies of its own work, any copies made (or authorized to be made) by the copyright owner must be "lawfully made under" Title 17.

This interpretation is untenable. Costco's argument equates the phrase "lawfully made under this title" with a requirement that the making of the copy *would have been lawful if the U.S. Copyright Act had applied.* But that is not what Congress said, and

Costco provides no reason to replace the words Congress used with words that have a very different meaning and invite very different consequences. Any doubt on that score is removed by reference to two subsections in 17 U.S.C. §602. In §602(a), regulating unauthorized importation, Congress distinguished between "infringement of copyright" under U.S. law, and acts "which would have constituted an infringement of copyright *if this title had been applicable*." (Emphasis added.) Similarly, §602(b) refers to circumstances "where the making of the copies ... would have constituted an infringement of copyright *if this title had been applicable*." (Emphasis added.) Congress's use of this language demonstrates that when Congress intends to regulate the making of copies "according to, or as defined by" the U.S. Copyright Act even where that Act does not apply (*cf.* Pet. Br. 11), it knows precisely how to say so. It did not do so in §109(a), and this Court should reject Costco's invitation to rewrite the law.

Moreover, the use of this language in §602 shows that, despite Costco's contentions to the contrary, Congress did not assume that *all* copies made by a U.S. copyright owner were necessarily "lawfully made under" the Copyright Act. To the contrary, as Omega has shown (Br. 25-29), Congress intended §602 to prohibit importation not only of pirated copies, but also of legitimate foreign-made copies intended for foreign distribution. Costco's interpretation of §109(a) would defeat this purpose. *Id.* 24-30.

Costco's position also finds no support in other provisions of the Copyright Act that employ the phrase "lawfully made under this title" or refer explicitly to the place of manufacturing. Costco contends that absurd results would follow if the Court of Appeals' interpretation of §109(a) were imported into those other

provisions, but Costco's arguments gloss over important distinctions in the statute's text.

For example, Costco cites (Br. 19-20) the now-expired "manufacturing provision," which provides that "the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States or Canada*." 17 U.S.C. §601(a) (emphasis added). In Costco's view (Br. 20), this provision demonstrates that a copy can be manufactured outside the United States and also "protected 'under [Title 17].'" But unlike §109(a), §601 does not turn on whether the *copies* at issue are "lawfully made under" the U.S. Copyright Act, but on whether the copies are of an original "*work* consisting ... of ... *literary material* that ... is *protected under*" the U.S. Act. 17 U.S.C. §601(a) (emphasis added). Section 601 does not characterize copies made outside the United States as "lawfully made under" U.S. law. Moreover, Congress's use of specific language to clearly express its intent to apply §601 to copies manufactured outside the United States contrasts sharply with §109(a), where Congress indicated no similar intent to apply the law extraterritorially.

Costco similarly contends (Br. 17-18) that absurd results would follow if the Court of Appeals' interpretation of "lawfully made under this title" were applied to provisions of the Audio Home Recording Act. That Act provides for payment of royalties to certain parties whose musical works have been "embodied in a digital musical recording or an analog musical recording lawfully made under this title that has been distributed." 17 U.S.C. §1006(a)(1)(A). Costco argues that if "lawfully made under this title" required that the recording

be manufactured within the United States, no royalties would be payable for recordings made abroad, contrary to §1004(b). But there is no tension between these two provisions. Section 1004(b) governs payments into a royalty fund by importers of digital audio recording media; §1006 governs the distribution of royalties from that fund to certain authors of musical works. Moreover, unlike §109(a), §1004(b) expressly applies both to recording media "manufactured and distributed in the United States," and to recording media "imported into and distributed in the United States," and thus provides a clear expression of congressional intent to reach goods manufactured abroad.

Finally, Costco cites (Br. 17) the educational use defense in 17 U.S.C. §110(1). That provision creates an exception to infringement liability for educational institutions that display copyrighted works publicly in the course of teaching activities. The defense is not available, however, for performances of motion pictures or audiovisual works if the copy being displayed was "not lawfully made under this title" and the person responsible for the performance knew or had reason to believe the copy was "not lawfully made." 17 U.S.C. §110(1). Costco predicts (Br. 17) that under the Court of Appeals' interpretation of "lawfully made under this title," teachers who display movies for educational purposes could be held liable for copyright infringement. But even if the Court of Appeals' interpretation of §109(a) were imported into §110(1), Costco's concern that educators who display foreign films would suddenly face a grave threat of liability if this Court affirms the Court of Appeals' judgment in this case is baseless. As discussed above, *supra* Part I.A.3, courts have construed the phrase "lawfully made under this title" in §109(a) as the Court of Appeals construed it here for nearly thirty

years, yet Costco points to no evidence that this interpretation has resulted in the nonsensical and unintended consequences Costco predicts. Were those consequences to materialize, Congress could address them by amending the Act, as it has done on numerous occasions. *See supra* pp. 12-13.[6]

Costco's contentions thus cannot overcome what the text of §109(a), the presumption against extraterritoriality, settled judicial precedent, and the purposes of the Copyright Act make clear: The first sale doctrine does not apply to copies that are manufactured and distributed outside the United States.[7]

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[6] It is also far from clear that Costco's reading of §110(1) necessarily follows from the Court of Appeals' interpretation of §109(a). While §109(a) provides a defense to infringement with respect to copies that are "lawfully made under this title," §110(1) creates an exception to an infringement defense with respect to copies that are "*not* lawfully made under this title." If the hypothetical case Costco describes ever actually arose, a court would have to consider whether to construe the phrase "not lawfully made under this title" to mean "unlawfully made" under—*i.e.*, made in violation of—the U.S. Copyright Act.

[7] As Omega notes (Br. 10), this case does not present, and the Court need not resolve, the question whether the first sale doctrine applies where a copy is manufactured abroad but sold in the United States with the authorization of the copyright owner. In dicta, the Court of Appeals repeated its previous determination that the first sale defense would apply on those facts. Pet. App. 8a-9a, 16a-17a. While that determination is consistent with the rationale of the first sale doctrine, the text of §109(a) limits the first sale defense to copies "*lawfully made under*" U.S. law, and the making of copies outside the United States is not governed by U.S. law. As the Solicitor General has argued, should any "anomaly" ever result from that plain meaning, it should be resolved by Congress, not by "construe[ing]" §109(a) to "effectively nullify

II. Extending The First Sale Defense To Infringing Imports Manufactured Abroad Could Produce Harmful Consequences Contrary To The Purposes Of The Copyright Act

Costco and its amici argue that the Court of Appeals' interpretation of §109(a), if adopted by this Court, would permit manufacturers to exploit the copyright laws to impair secondary markets, restrict competition, and harm consumers without any countervailing advancement of the purposes of the Copyright Act. *See* Pet. Br. 46-52; Retail Industry Leaders Association Br. 19-20, 34-35; Public Knowledge Br. 13-20, 25-27; Public Citizen Br. 7-10; eBay Br. 15-22.

In advancing these arguments, Costco and its amici ignore completely the consequences their preferred interpretation of §109(a) would have for artistic fields like the motion picture and music industries that lie at the core of the Copyright Act's intended protection and that depend on copyright protection for their economic viability. Although, like *Quality King*, this particular case arises in the context of labels on commercial goods that bear "only a limited creative component," the Court's interpretation of §109(a) will "apply equally to a case involving more familiar copyrighted materials." 523 U.S. at 140. Thus, when construing the Copyright Act, courts "must remember that its principal purpose was to promote the progress of the 'useful Arts' by rewarding creativity" and that its "principal function is the protection of original works, rather than ordinary commercial products that use copyrighted material as a marketing aid." *Id.* at 151 (citation omitted). As in

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Congress's clear policy choice ... that market segmentation be permitted." U.S. Cert. Br. 19.

Quality King, it is therefore appropriate to "take into account the impact" on original creative works. *Id.*

Here, Costco's interpretation of §109(a), if accepted, would undermine important copyright protection on which the motion picture and music industries depend. These industries rely on the ability to plan for and control the timing and manner of the release of their works in different markets around the world. Unauthorized importation of home video discs and CDs[8] into the U.S. market would undercut that control and would deprive authors of creative works of the economic benefits Congress intended to make available *under U.S. copyright law* as an incentive to creative activity.[9]

A. Undermining Copyright Owners' Control Over Entry Into Different Markets Threatens The Value Of Their Copyright

Unauthorized importation into the United States of copies made outside the United States for foreign

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[8] As used in this brief, the phrase "video discs" includes both DVDs and Blu-Ray discs, and any other optical discs used for viewing movies at home. "CDs" refers to compact discs used for listening to sound recordings.

[9] While for technical reasons some video discs manufactured for sale in other markets cannot be played back satisfactorily or at all on U.S. televisions and disc players, a substantial proportion of such discs will play perfectly well in the United States. Indeed, with the shift to high-definition technologies such as Blu-Ray, one of the main technical impediments to using video discs manufactured abroad for home entertainment in the U.S. is becoming increasingly obsolete. Accordingly, the adverse consequences for the motion picture industry that arise from unauthorized importation will pose an even more serious concern as more markets move to high-definition home entertainment technology.

markets diminishes the value of the U.S. copyright. When copyright owners distribute tangible copies of creative works in a foreign market, they recoup the economic benefit made possible by the copyright law of that country—which may be substantially less generous or well enforced than U.S. copyright law—but do not realize the separate benefit Congress intended them to derive from their U.S. copyright. To avoid loss of valuable rights under U.S. copyright law, copyright owners must be able to maintain control over their entry into different markets and to enter one market without jeopardizing their success in another. Applying the first sale defense to copies that are manufactured abroad for distribution in other markets but introduced into the U.S. market without the copyright owner's authorization would undermine these important rights.

Under Costco's view, a U.S. copyright owner will be deemed to have exhausted its rights under the U.S. Copyright Act even before it has realized the economic benefit Congress intended to make available through control over the first sale. For example, when unauthorized importers purchase CDs, DVDs, or Blu-Ray discs in other markets and resell them in the United States, the importer effectively undercuts the economic benefit Congress intended to provide to the copyright owner to stimulate artistic activity. Similarly, when the U.S. copyright is held by a company that has no distribution rights in other markets, unauthorized importation of copies of a movie or sound recording made abroad for a foreign market prevents the U.S. copyright holder from realizing the benefit of its rights under U.S. law, even if it has yet to sell a single theater ticket, CD, or home video disc.

Extension of the first sale doctrine to copies made abroad could thus have harmful consequences for artistic industries that depend on copyright protection and thwart the purposes of the Copyright Act. Those harms, in turn, could have deleterious consequences for the U.S. economy as a whole. As of 2008, the motion picture and television industry supported 2.4 million jobs across all fifty States and over $140 billion in total wages. MPAA, *The Motion Picture & Television Industry Contribution to the U.S. Economy* 2 (Apr. 2010). In addition to the major motion picture studios, the industry supports and relies on a nationwide network of other businesses—over 95,000 businesses as of 2009. *Id.* at 4. The music industry generated revenue of $18.7 billion in 2005 and employed over 25,000 paid employees as of 2004. Siwek, *The True Cost of Sound Recording Piracy to the U.S. Economy*, Institute for Policy Innovation, Report No. 188, at 2 (2007). The industry supports many smaller businesses such as retail stores, distribution companies, recording studios, and music professionals. The retail trade alone generates over $7 billion from the sale of sound recordings. *Id.* Maintaining copyright protection thus is crucial not only to the health of these industries themselves, but also to preserve their substantial contributions to the national economy.

B. The Ability To Treat National Markets Separately Is Important To The Success Of The Motion Picture And Music Industries

As Omega has demonstrated (Br. 27-30), the prohibition on unauthorized importation in §602 was intended to protect domestic distribution rights and copyright holders' ability to treat national markets separately. Ignoring these purposes, Costco recognizes

no difference between the foreign and domestic markets. Yet these markets are distinct. Cultural and other differences across markets in different parts of the world make it necessary for motion picture companies to tailor theatrical releases and disc sales to the particulars of each market. Producers, accordingly, adapt the timing, content, advertising, and other aspects of theater and home video releases to each market to maximize the prospect of commercial success. Record companies similarly time their domestic and foreign releases to maximize overall sales. If companies' ability to do so is undercut by unauthorized importation and the U.S. market is saturated with DVDs, Blu-Ray discs, and CDs that were not intended for U.S. distribution, movies and sound recordings would be less likely to achieve commercial success. *See, e.g.*, Craig et al., *Culture Matters: Consumer Acceptance of U.S. Films in Foreign Markets*, 13 J. Int'l Marketing 80, 97 (2005). Unauthorized importation may disrupt exclusive licenses or interfere with the copyright holder's flexibility to respond to market changes. Moreover, a copyright owner's loss of control over the first sale into particular markets may increase the risk that entering different markets will diminish valuable rights under U.S. copyright law.

1. *Timing releases differently in different markets.* For numerous reasons, it is common practice in the motion picture industry for a studio to release new movies in theaters and on DVD or Blu-Ray at different times in different markets. Sometimes these decisions are driven by the content of the movie: A movie marketed as a summer blockbuster is unlikely to be released at the same time in Australia and New Zealand as in Europe and North America. Control over the timing of entry into a particular market is also vital to

advertising and promotional strategies. Promotional "hype" surrounding a movie's release or publication can contribute greatly to its commercial success, but creating hype depends on close control over the timing of entry into the market. For example, timing a release to coincide with a promotional tour by actors or artists associated with the work helps maintain excitement and demand around the work's release. Similarly, filmmakers may delay a movie's release in large markets like the United States until a movie has enjoyed success in smaller markets or international film festivals. Record companies likewise time the release of recordings in different markets to capitalize on promotional opportunities such as when an artist will be on tour or available to promote the album. Ensuring the copyright holder's control over the timing of entry into different markets enables it to build a "crescendo of demand" that facilitates the widest possible dissemination of its creative works. Barfield & Groombridge, *The Economic Case for Copyright Owner Control over Parallel Imports*, 1 J. World Intell. Prop. 903, 929 (1998). Under Costco's view, moreover, a studio that had reason to release a movie on disc in one market while the movie was still in theaters in the United States could not do so without heightened risk that unauthorized importation of foreign video discs into the United States would detract from the success of the U.S. theatrical release. *See id.* at 930 (unauthorized imports "can destroy the profitability of the sequencing chain—in both the theatrical and video markets").[10]

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[10] The practice of "windowing," or releasing movies at different times around the world, is longstanding and common. For example, an affiliate of MPAA member Twentieth Century Fox Films Corporation released the suspense film *Taken* on DVD in

2. *Combating piracy and unauthorized importation.* The timing of releases into different markets is often staggered due to concerns that piracy in some markets will hinder sales in other regions. For example, in countries where "camcording" is prevalent (*i.e.*, surreptitious use of handheld video recorders to record copies of movies during theater performances), a copyright owner might release the DVD and Blu-Ray versions of the film early to compete with and deter camcording activity. If those early-release video discs could lawfully be imported into the United States while the film is still showing in U.S. theaters, they could undercut the success of the theatrical release. Record companies also stagger their releases around the world in an effort to combat rampant music piracy. A copyright owner that needs to adapt its marketing strategy to conditions in certain other countries where copyright protection is less stringently enforced should not risk losing the economic benefit of its rights under U.S. copyright law in doing so.

3. *Varying content by market.* Unlike wristwatches or other ordinary commercial goods, original creative works are often tailored in content to better respond to regional conditions and tastes. In the motion picture context, for example, a studio will frequently release different versions of the same movie in different markets to adapt to local language, taste, and

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Mexico in November 2008, but did not release the film in U.S. theaters until January 2009. The Mexican DVD, which was manufactured in Mexico, was compatible with U.S. televisions and DVD players. Given the staggered release windows, unauthorized importation of copies of the Mexican DVD could have significantly diminished the success of the U.S. theatrical release and undercut the value of Fox's U.S. distribution rights.

humor, to comply with different decency and ratings standards, or simply to make different artistic statements.[11] Treating international markets differently for these purposes is perfectly legitimate. Yet under Costco's view, a studio would face the threat that foreign versions of movies, which could be less well received by U.S. audiences than a version specifically tailored to U.S. tastes, could become widely available in the United States, yielding negative reactions and depressing sales. Sound recordings tend to be less heavily tailored to particular tastes than movies, but even they are edited to comport with local views of language and decency. Record companies should not be deprived of the right to control how their works are received in the United States.

4. *Fostering local distribution networks.* The motion picture and television industry supports over 2.4 million jobs and over $140 billion in total wages in the United States. Over 453,000 of these jobs and over 45,000 businesses are involved in local distribution of motion pictures to consumers. MPAA, *Motion Picture Contribution* 2, 4. The recorded music industry

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[11] *See, e.g.*, Alternate Versions for *Austin Powers: International Man of Mystery* (1997), http://www.imdb.com/title/tt0118655/alternateversions (describing different jokes, editing, and content in U.S. and United Kingdom versions); Alternate Versions for *Schindler's List* (1993), http://www.imdb.com/title/tt0108052/alternateversions (comparing Israeli and other versions); Alternate Versions for *E.T.: The Extra-Terrestrial* (1982), http://www.imdb.com/title/tt0083866/alternateversions (describing alteration in Japanese version to accommodate cultural differences); Alternate Versions for *The Shining* (1980), http://www.imdb.com/title/tt0081505/alternateversions (describing changes in content and editing made by director Stanley Kubrick for U.S. and European theatrical and home video releases).

supports a similar array of "downstream" businesses including retail stores, which generate over $7 billion annually. Siwek 2. Treating markets separately permits copyright owners to develop stable networks of distributors who are focused on a particular national market. The distributor's familiarity with the national market helps ensure that new theatrical, home video, and music releases are packaged and advertised in the optimal manner for that market. Local distributors can "customize the products to meet local market demands, including dubbing/sub-titling, duplication of the customized product, special packaging and advertising." Barfield & Groombridge 930. Local distribution networks also aid the copyright owner in policing against piracy and copyright infringement by monitoring sales and distribution and keeping track of the provenance of different batches of copies.

5. *Dividing rights across markets.* It is common in the movie industry for distribution rights to a particular film to be held by different companies in different countries. As Omega has shown (Br. 24-30), Congress enacted §602(a) largely to protect such arrangements and prohibit importation of both piratical and legitimate foreign copies. Often, copyright owners license the exclusive distribution rights in particular markets as a means of raising capital to finance new films. For example, to obtain the necessary financing to produce and market a new film, a studio might sell or license distribution rights to the film in smaller, strategic markets to raise money, while retaining the rights—and the prospect of a sound market return—in larger markets like the United States. *See* Barfield & Groombridge 930. Likewise, record companies often license the distribution of their sound recordings in foreign territories as a way of utilizing the licensee's

superior distribution capability in a particular region, enhancing revenue for both the record company and its licensee. When rights are held separately in this way, the U.S. copyright holder has no right to make or distribute copies in foreign markets. Yet when copies made abroad by a foreign copyright holder or a licensee with distribution rights in the foreign market are imported without authorization into the United States, they undercut revenue for the company holding the exclusive distribution rights in the United States. Indeed, under Costco's view, there would effectively be no such thing as exclusive distribution rights for the U.S. copyright holder if copies made abroad by a licensee with foreign distribution rights could be freely imported and shielded by the first sale defense.

C. Costco's Policy Arguments Are Unrealistic And Cannot Overcome The Statute's Text And Purpose

While ignoring the harmful consequences their interpretation of the first sale doctrine could have for creative industries, Costco and its amici predict a parade of horribles they say will result if this Court affirms the decision below. These predictions are unfounded and unrealistic. And even if Costco's policy concerns were well taken, the proper forum in which to resolve them would be Congress, not this Court.

As an initial matter, Costco's improbable concern (Br. 17, 51-52) that limiting the first sale doctrine to copies made in the United States will result in unintended liability for unwary teachers, librarians, or travelers trivializes the serious threat to copyright protection that could result from adoption of Costco's interpretation of §109(a). The threat at issue is the prospect of unauthorized importation of tens or hundreds of

thousands of copies of movies, sound recordings, or other protected works that will undercut the market for the copies intended for sale in the United States and prevent copyright holders from realizing the benefit that Congress intended to make available under U.S. copyright law. Costco points to no evidence to suggest that the existing rule has deterred legitimate activity by teachers or librarians or has invited reckless or unwarranted enforcement actions.

Costco's dire predictions about the gray market are likewise one-sided and overstated. Costco fails even to acknowledge the active debate surrounding the value of parallel imports (or lack thereof), and it ignores the numerous legitimate reasons for treating national markets separately. The very articles Costco cites (Br. 46-47) for the proposition that the U.S. economy will be harmed, in fact, take a much more ambivalent view than Costco acknowledges of the value of and threat to the gray market. For example, one cited article reports that academic "reactions to gray market encroachments are mixed," due in part to evidence that "billion[s] [of dollars] in cannibalized sales" may "stifle the incentive to innovate." Autrey & Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Accounting & Management Unit Working Paper No. 09-098, at 1 (2009). Another source Costco cites reports that gray markets cause companies to "suffer from price erosion, brand damage, and ... inadequate customer service." KPMG LLP, *Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line* 3 (2008).

Costco and its amici next contend that adopting the Court of Appeals' interpretation of §109(a) would harm the U.S. economy by creating an incentive for copyright owners to "outsource" manufacturing to other

countries to avoid application of the first sale doctrine. As discussed, however, a producer of creative works must take numerous considerations into account when making manufacturing and marketing decisions across different markets. Costco ignores this context.

It is thus far from clear that any of the negative policy consequences Costco predicts will ever materialize. Indeed, as discussed above, courts have held for nearly thirty years that the first sale doctrine does not apply when copies manufactured abroad are imported into the United States without the copyright owner's authorization. *Supra* Part I.A.3. Yet Costco points to no evidence that any of the harms it predicts has come about despite this settled judicial construction. A similar rule of Community-wide exhaustion of the distribution right was codified in the European Union in 2001.[12] If Costco and its amici were correct in their warnings, one would expect some evidence of the harmful consequences they describe to have emerged in the United States or Europe, but Costco points to none.

Moreover, many of the policy arguments advanced by Costco and its amici in support of an unfettered secondary market in copyrighted goods reduce to the contention that copyright owners should not be permitted to control the first sale of any protected work in the United States or realize any economic benefit from

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[12] *See* Council Directive 2001/29, ¶28 & art. 4, 2001 O.J. (L167) 10, 12, 16 (EC) ("right to control resale" "should not be exhausted in respect of ... copies ... sold by the rightholder or with his consent outside the Community"); *see also* Case C-479/04, *Laserdisken ApS* v. *Kulturministeriet*, 2007 C.M.L.R. 6, 209 (exhaustion of exclusive distribution right requires first sale by or with the consent of the rightholder "on the market in the Community").

their U.S. copyright. But Congress has concluded otherwise, and it has determined that providing that benefit is the best way to spur creation of new artistic works for the public good. *See Twentieth Century Music Corp.*, 422 U.S. at 156; *Harper & Row*, 471 U.S. at 546.

Finally, even if Costco's policy concerns were to materialize, the proper response would be for Costco or its amici to direct those concerns to Congress, not to ask this Court to distort the language of §109(a) of the Copyright Act. In crafting and fine-tuning the Copyright Act, Congress has sought to achieve a "difficult balance between the interests of authors and inventors in the control and exploitation of their writing and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). As this Court has repeatedly recognized, "it is generally for Congress, not the courts, to decide how best to pursue [those] objectives." *Eldred* v. *Ashcroft*, 537 U.S. 186, 212 (2003). And as discussed above, Congress has shown itself to be willing and able to amend the Copyright Act to readjust that balance in response to emerging policy concerns. *Supra* pp. 12-13.

CONCLUSION

The judgment of the Court of Appeals should be affirmed.

Respectfully submitted.

JENNIFER L. PARISER
RECORDING INDUSTRY
ASSOCIATION OF AMERICA
1025 F Street, NW
Washington, DC 20004
(202) 775-0101
jpariser@riaa.com
Counsel for the RIAA

SETH P. WAXMAN
Counsel of Record
RANDOLPH D. MOSS
CATHERINE M.A. CARROLL
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000
seth.waxman@wilmerhale.com
Counsel for the MPAA

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AMICUS CURIAE BRIEF

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Petitioner,

v.

OMEGA, S.A.,
Respondent.

On Writ of Certiorari to the
United States Court of Appeals for the Ninth Circuit

BRIEF OF AMICUS CURIAE PUBLIC CITIZEN IN SUPPORT OF PETITIONER

GREGORY A. BECK
ADINA H. ROSENBAUM
Counsel of Record
ALLISON M. ZIEVE
PUBLIC CITIZEN LITIGATION GROUP
1600 20th Street NW
Washington, DC 20009
(202) 588-1000
gbeck@citizen.org

Counsel for Amicus Curiae
Public Citizen

July 2010

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INTEREST OF AMICUS CURIAE[1]

Public Citizen is a national consumer-advocacy organization based in Washington, D.C. Public Citizen is active before Congress, administrative agencies, and the courts on a wide variety of consumer-protection issues. For the past decade, Public Citizen has been concerned about the effect on consumers of expansive and unjustified claims of intellectual property rights and has represented people subjected to anticompetitive claims of copyright and trademark infringement. In Public Citizen's experience, companies in recent years have attempted, like Omega here, to bypass the first-sale doctrine by abusing their copyright to retain control of downstream sales. Such practices expand the scope of copyright far beyond its intended bounds, unfairly restrict the right of consumers to dispose of their personal property, and ultimately lead to higher prices by eliminating the secondary market for used works. Public Citizen files this brief to highlight the irrational and harmful consequences that the Ninth Circuit's decision below, if allowed to stand, would have for consumers.

BACKGROUND

This case is about Omega's effort to exploit its copyright to control distribution of its watches even after it has sold them for full value. Omega manufactures watches in Switzerland and sells them to foreign distributors around the world. JA 60. Third-party importers brought some of the watches to the United States, where Costco purchased them and sold them to consumers at

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[1] Pursuant to this Court's Rule 37.6, counsel states that this brief was not authored in whole or in part by counsel for a party and that no one other than amicus curiae and its counsel made a monetary contribution to the preparation or submission of this brief. Letters from each of the parties consenting to the filing of all amicus briefs are on file with the Clerk.

prices below Omega's suggested retail price. JA 61, 66. In response to complaints from other distributors about Costco undercutting their prices, Omega began stamping a tiny engraving of a globe on the back of its watches and registered the symbol with the United States Copyright Office. JA 46-52, 60, 116-17. When Costco continued selling the watches, Omega sued for copyright infringement, claiming that resale of engraved watches that had been imported without its permission infringed its distribution and importation rights under 17 U.S.C. §§ 106(3) and 602(a).

The district court granted summary judgment to Costco, but the Ninth Circuit reversed. The court acknowledged that the first-sale doctrine embodied in § 109(a) of the Copyright Act allows "the owner of a particular copy . . . lawfully made under this title" to "sell or otherwise dispose" of the copy "without the authority of the copyright owner." Pet. App. 7a. But the court considered itself bound by circuit precedent holding that a work is "lawfully made" under the Copyright Act only if the copy is "legally made and sold in the United States." Pet. App. 8a (citing *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991)). Because Omega makes its watches in Switzerland, the court applied its decision in *BMG Music* to conclude that Costco's resale of the watches in the United States constituted infringement. Pet. App. 9a.

The court rejected Costco's argument that excluding foreign-made goods from the first-sale doctrine conflicts with this Court's holding that the doctrine "is applicable to imported copies." *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998). The court concluded that *Quality King* is consistent with an exception to the *BMG Music* rule created by *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994). Pet. App. 13a. Recognizing that eliminating the first-sale doctrine for all foreign-manufactured goods

would be "absurd" and "untenable," *Parfums Givenchy* held that a work is "lawfully made" (and therefore protected by the first-sale doctrine) even if manufactured abroad, as long as the copyright owner sold or authorized a sale of the work in the United States. *Id.* at 482 n.8. Here, Omega sold the watches to foreign distributors rather than to distributors in the United States. The court therefore held that a finding of infringement was not "clearly irreconcilable" with *Quality King*. Pet. App. 15a.

ARGUMENT

I. The Ninth Circuit's Rule Upsets the Balance Created by the First-Sale Doctrine.

Omega does not claim that Costco produced or sold counterfeit watches. Rather, Omega argues that Costco's resale of authentic, lawfully purchased watches infringes its exclusive right to "distribute" copyrighted works under the Copyright Act. 17 U.S.C. § 106(3). Omega's theory—and the rule adopted by the Ninth Circuit—is that stamping a tiny copyrighted image on the back of the watches turns every subsequent sale, rental, loan, or gift into copyright infringement, subjecting the infringer to statutory damages and potential criminal penalties. *See* 17 U.S.C. §§ 504, 506.

To be sure, Omega's ability to control downstream sales might allow it to more effectively control prices among different markets. But protection of Omega's preferred business model is not an interest that the Copyright Act protects. Copyright "has never accorded the copyright owner complete control over all possible uses of his work." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984). Rather, the Copyright Act creates a careful balance between the interests of copyright owners and consumers. *See Stewart v. Abend*, 495 U.S. 207, 228 (1990). The purpose of that bal-

ance is not to serve copyright holders' marketing interests, but to advance the public's interest in the authorship of new creative works. *See Sony Corp.*, 464 U.S. at 429 ("The monopoly created by copyright thus rewards the individual author in order to benefit the public.").

Section 106(1) of the Copyright Act establishes the key incentive for the creation of new works by granting copyright owners the exclusive right to reproduce those works, thus allowing them to demand payment for each copy sold. The distribution right on which Omega relies is a corollary to the reproduction right, intended to make that right "effectual" by granting copyright owners recourse against distributors of pirated copies. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-51 (1908). Section 106(3) of the Copyright Act thus "accords the copyright owner the right to control the first public distribution of his work, echo[ing] the common law's concern that the author or copyright owner retain control throughout th[e] critical stage" before a good goes to market. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 555 (1985) (internal quotation omitted).

To effectively protect the copyright owner's reproduction right, however, the distribution right needs to protect only the right to distribute each copy *one time*. Thus, the distribution right does not include "the authority to control all future retail sales." *Bobbs-Merrill*, 210 U.S. at 351; *see Quality King*, 523 U.S. at 140 & n.4. Under the first-sale doctrine, "once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152; *see* 17 U.S.C. § 109(a).

This fundamental limit on the scope of the distribution right reflects Congress's judgment that the right to control downstream sales is not a necessary incentive to

promote the creation of new works. *See Brilliance Audio, Inc. v. Haights Cross Commc'ns, Inc.*, 474 F.3d 365, 373-74 (6th Cir. 2007) ("Once a copyright holder has consented to distribution of a copy of that work, [the copyright] monopoly is no longer needed because the owner has received the desired compensation for that copy."). Any marginal incentive that would be created by expanding the right to cover downstream sales would not be worth the corresponding intrusion into the public's countervailing ownership interests. At that point, "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation." 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[A] (2009).

The right to control importation set forth in § 602 of the Copyright Act is a subset of the distribution right and is thus subject to the same limitations. *See Quality King*, 523 U.S. at 138 (holding that the first-sale doctrine "is applicable to imported copies"). Like the distribution right, the importation right is designed not to convey a broad new authority to control commerce, but to strengthen and protect the copyright owner's reproduction right. Some measure of control over importation is essential to protect the reproduction right because, without it, pirates could bypass the Copyright Act by making copies in countries with lax or nonexistent copyright protections and then importing those copies into the United States. The importation right prevents such circumvention of U.S. law by providing the copyright owner with a private remedy against importers of pirated copies and copies that, while "produced lawfully under a foreign copyright," would be unlawful if produced in the United States. *Id.* at 146-47.

The logic behind the importation right, however, does not apply to importation of genuine, authorized copies of a work that the copyright owner lawfully produces and

sells for full value, regardless of where the production and sale occur. In such circumstances, "continued control of the distribution of copies is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property that embodies the copyrighted work." *Nimmer on Copyright* § 8.12[A].

The Ninth Circuit's exception to its rule for cases where an authorized sale occurs in the United States, set forth in *Parfums Givenchy*, 38 F.3d at 482 n.8, only makes the rule more illogical. The exception's arbitrary distinction between first sales in the United States and first sales abroad has no foundation in the text of § 109(a), which never mentions the location of the first sale. Moreover, the exception does nothing to further the Copyright Act's purpose of promoting creative expression. It makes no sense to provide more stringent copyright protection under U.S. law to copies sold outside the United States than to copies sold domestically. Just as pirates are not entitled to bypass U.S. copyright protection by moving their operations overseas, copyright owners should not be allowed to bypass the first-sale doctrine's limit on the scope of their rights by making their first sales abroad.

II. The Ninth Circuit's Rule Undermines Consumers' Personal Property Rights and Would Severely Harm the Secondary Market for Used Works.

The first-sale doctrine embodied in § 109(a) is a crucial component of the balance of interests created by the Copyright Act, reflecting "the traditional bargain between the rights of copyright owners and the personal property rights of an individual who owns a particular copy." *Brilliance Audio*, 474 F.3d at 373–74. The doctrine "ensures that the copyright monopoly does not in-

trude on the personal property rights of the individual owner" by providing that owners of particular copies of a copyrighted work have the same right to sell, give away, or destroy those copies as they traditionally have with any other piece of personal property. *Id.*; *see Sebastian Int'l v. Consumer Contacts*, 847 F.2d 1093, 1096 (3d Cir. 1988) ("The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property.").

By giving copyright owners the authority to control disposition of their works even after selling them for full value, the Ninth Circuit's decision cuts deeply into traditional rights of ownership and converts a wide range of otherwise innocent activities into copyright infringement. Thus, under the Ninth Circuit's rule, a tourist who mails a postcard into the United States from abroad would be potentially liable for copyright infringement. So too would a traveler who purchases a novel overseas intending to read it on the flight home and then sell it at a yard sale, donate it to a library, or give it to a friend after returning to the United States. In these cases, the copyright owner's distribution right under § 106(3) would be implicated even if the works were given away rather than sold because the distribution right includes control over *all* forms of transfer, "whether by sale, gift, loan, or some rental or lease arrangement." H.R. Rep. No. 94-1476 at 52 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5675-76; *see also* 17 U.S.C. § 101 (right includes distribution "by sale *or other transfer of ownership*, or by rental, lease, or lending") (emphasis added).[2]

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[2] The "suitcase exemption" of the Copyright Act permits importation of copies of copyrighted materials without the authorization of the copyright holder when they are in the personal baggage of a traveler, but not if the traveler intends to distribute the copy or copies to others. 17 U.S.C. § 602(a)(2).

The Ninth Circuit's rule creates potential liability even for many goods purchased domestically. Because copyright infringement would occur *each time* there is a transfer of ownership, the Ninth Circuit's holding means that individual consumers would be liable for copyright infringement whenever they sell, give away, or donate a product that was originally sold abroad. A copy of a Harry Potter book, for example, could be given as a gift if it were printed in the United States, but not if it were printed in Britain and sold in the United States by a third-party distributor. Similarly, any consumer who purchased an authentic Omega watch at Costco could not give it as a graduation gift, donate it to a charity auction, or sell it to a secondhand jewelry shop without violating the Copyright Act.

To avoid the risk of liability, consumers would be forced to trace the chain of title of a book or other copyrighted work to ensure that it was produced in the United States or, under the Ninth Circuit's *Parfums Givenchy* exception, sold here by the copyright owner. But unlike real property, for which transfer of titles are recorded, there is no practical way for a purchaser of consumer goods to obtain such information. Moreover, a mistake in determining the work's ancestry could subject the purchaser to severe liability, including attorneys' fees and up to $150,000 in statutory damages per infringing work. *See* 17 U.S.C. § 504. Such costly burdens on the stream of commerce are the basis for the common law's hostility to restrictions on alienation.

The negative effects of Omega's position are further exacerbated by its attempt to use copyright to restrict distribution of a useful article that would not ordinarily be entitled to copyright protection. Omega added the tiny globe design on the back of its watches for the sole purpose of preventing resale. Pet. Br. at 3. The design adds little or no value to the watch and likely goes unno-

ticed by many consumers. Even consumers who do notice the symbol would not know that it is a copyrighted work registered in the United States, because the symbol is not accompanied by a copyright notice. *See* Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, § 7, 102 Stat. 2853 (1988) (eliminating the requirement that copyrighted materials carry a notice of copyright).

Omega is not the only manufacturer that has sought to control the distribution of its products by slapping a copyrighted label or symbol on its otherwise uncopyrightable product. *Quality King* involved a copyright in the label on a shampoo bottle, 523 U.S. at 138, and federal case law contains many other examples, including copyrighted perfume boxes, *Parfums Givenchy*, 38 F.3d 477, and diaper packaging, *Denbicare U.S.A. Inc. v. Toys R Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996). The upshot is that, unbeknownst to the ordinary consumer, the distribution of any product accompanied by a logo or label holds the potential for copyright liability.

Giving copyright owners the right to restrict downstream distribution would also harm consumers by limiting the secondary market for copyrighted works. The first-sale doctrine ordinarily exerts a downward pressure on prices by forcing copyright owners to compete with used, rental, and library copies of their own goods. These secondary markets promote both competition and the distribution of copyrighted works. *See* John A. Rothchild, *The Incredible Shrinking First Sale Rule*, 57 Rutgers L. Rev. 1, 79-80 (2004). But the Ninth Circuit's holding allows copyright owners outside the United States to restrict resale entirely. *Id.* Textbook publishers, for example, could prohibit sale of their books at used book stores and online sites like eBay, thereby requiring students to buy only new copies at a higher price.

The inevitable outcome of the Ninth Circuit's rule, if adopted by this Court, would therefore be an increase in the price of copyrighted works. *See id.* at 15; R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. Rev. 577, 627 (2003) ("[T]he presence of such partial competition by means of the first sale doctrine may result in lower price and greater quantity—that is, increased affordability of copyrighted works."). Such an outcome would harm consumers while advancing none of the copyright owner's legitimate interests under the Copyright Act.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

GREGORY A. BECK
ADINA H. ROSENBAUM
Counsel of Record
ALLISON M. ZIEVE
PUBLIC CITIZEN LITIGATION GROUP
1600 20th Street NW
Washington, DC 20009
(202) 588-1000
gbeck@citizen.org

Counsel for Amicus Curiae Public Citizen

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AMICUS CURIAE BRIEF

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In The Supreme Court of the United States

COSTCO WHOLESALE CORP.,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF *AMICI CURIAE* PUBLIC KNOWLEDGE, AMERICAN ASSOCIATION OF LAW LIBRARIES, AMERICAN FREE TRADE ASSOCIATION, ELECTRONIC FRONTIER FOUNDATION, MEDICAL LIBRARY ASSOCIATION, AND SPECIAL LIBRARIES ASSOCIATION IN SUPPORT OF PETITIONER

GIGI B. SOHN
Counsel of Record
SHERWIN SIY
PUBLIC KNOWLEDGE
1818 N. St. NW
Suite 410
Washington, DC 20036
(202) 861-0020
gbsohn@publicknowledge.org

Counsel for Amici Curiae

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
OR CALL COLLECT (402) 342-2831

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INTEREST OF THE *AMICI CURIAE*

Public Knowledge, the American Association of Law Libraries, the American Free Trade Association, the Electronic Frontier Foundation, the Medical Library Association, and the Special Libraries Association respectfully submit this brief in support of Petitioner Costco Wholesale Corporation.[1] Public Knowledge is a non-profit public interest organization devoted to protecting citizens' rights in the emerging digital information culture and focused on the intersection of intellectual property and technology. Public Knowledge seeks to guard the rights of consumers, innovators, and creators at all layers of our culture through legislative, administrative, grass-roots, and legal efforts, including regular participation in copyright and other intellectual property cases that threaten consumers, trade, and innovation.

The American Association of Law Libraries ("AALL") is a non-profit educational organization with over 5,000 members nationwide. Our members serve the information needs of the legal community and the public at more than 1,900 academic, firm,

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[1] No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae*, or its counsel, made a monetary contribution to its preparation or submission. Petitioner and Respondent have filed letters with the Court granting blanket consent for *amici*. Public Knowledge law clerks Anjali Bhat and Chris Reilly assisted in the preparation of this brief.

state, court and county law libraries nationwide. AALL's mission is to promote and enhance the value of law libraries, to foster law librarianship, and to provide leadership and advocacy in the field of legal information and information policy.

The American Free Trade Association ("AFTA") is a non-profit trade association of independent American importers, distributors, retailers and wholesalers of genuine and legitimate brand name consumer goods which are bought, sold, and distributed in the parallel marketplace. For more than twenty years, AFTA has been an active advocate for preservation of intellectual property laws which also foster the competitive pricing and distribution available through lawful parallel market distribution.

The Electronic Frontier Foundation ("EFF") is a non-profit civil liberties organization working to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 13,000 dues-paying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between intellectual property rights and the public interest.

The Medical Library Association ("MLA"), a non-profit, educational organization, comprises health sciences information professionals with more than 4,000 members worldwide. Through its programs and services, MLA provides lifelong educational opportunities, supports a knowledgebase of health information research, and works with a global network of

partners to promote the importance of quality information for improved health to the health care community and the public.

The Special Libraries Association ("SLA") is a non-profit global organization for innovative information and knowledge professionals and their strategic partners. SLA serves some 10,000 corporate, academic, government, and other information specialists in seventy-five countries. SLA promotes and strengthens its members through learning, advocacy, and networking initiatives.

This case threatens the ability of consumers and businesses alike to control and dispose of *all* lawfully acquired goods that contain a copyrighted work made outside the United States. In an increasingly interconnected world, where the manufacturing of tangible products and knowledge goods can be distributed easily and widely, consumers should be confident that they retain the same rights to their belongings regardless of where those goods or their labeling were produced. The decision below provides a recipe for ensuring that all goods – consisting of copyrighted content or not – can no longer be lawfully resold, given away, or imported after a lawful sale abroad. It is critical for the law to be clear that 150 years of common law on personal property cannot be overridden by misconstruing a copyright statute thirty years after its passage. *See, e.g.*, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908) (identifying the first sale doctrine and observing that "[t]o add to the right of exclusive sale the authority to control all future

retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute").

SUMMARY OF ARGUMENT

The Ninth Circuit's decision erroneously precludes the application of § 109(a) of the Copyright Act to copyrighted works and goods with copyrighted logos manufactured abroad. The results of upholding this decision could include suppression of secondary and parallel markets, which would cause pervasive damage to trade, innovation and the general public interest. Additionally, the Ninth Circuit's interpretation of § 109 is incongruous with the text of Title 17 and congressional intent. Accepting the circuit court's interpretation would lead to contradictory constructions of the statute and the United States Code. Moreover, despite the Ninth Circuit's concerns, applying § 109 to goods manufactured abroad would not be an extraterritorial imposition of United States law.

ARGUMENT

I. The Consequences of Allowing the Decision Below to Stand Include Far-Reaching Damage to Trade, Innovation, and the General Public Interest

Section 109's codification of the first sale doctrine states that the copyright owner's control over the

distribution of a particular copy of a work "lawfully made under this title" is exhausted after the first sale of that copy. 17 U.S.C. § 109(a) (2006). However, the Ninth Circuit interpreted "lawfully made under this title," *id.*, to mean "copies legally made . . . in the United States." *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008) (quoting *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991)) (internal quotations omitted). If this Court upholds the Ninth Circuit's opinion, the copyright owner's distribution right would never be exhausted under § 109(a) so long as the copy was manufactured outside the United States and the copyright owner never authorized its sale within the United States.[2] This restriction on § 109 would chill the entire secondary market for copyrighted goods in the United States, and potentially all foreign-produced goods that merely bear or contain a copyrighted image or logo. The decision below must be reversed in order to prevent far-reaching and negative consequences for trade, innovation, and the general public interest.

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[2] A primary result of this interpretation is that domestically-made copies of works would receive less protection than foreign-made copies. The Ninth Circuit attempts to avoid this perverse result by inserting into its holding an exception, unsupported by the text of the statute, that an authorized sale within the United States somehow rehabilitates § 109's application. *Omega*, 541 F.3d at 986.

A. The Inability to Resell Lawfully Purchased Goods Does Direct Harm to Consumers and Resellers

The uncertainty created by the Ninth Circuit's holding will harm used bookstores, libraries, yard sales, out-of-print book markets, movie and video game rental markets, and innumerable other secondary markets. Owners of copyright works or goods containing copyrighted elements manufactured abroad will be unable to dispose of these products without authorization at the risk of liability under copyright law's extensive damages provisions. *See* 17 U.S.C. § 504 (2006). Furthermore, the chilling effects of the Ninth Circuit's holding will extend beyond works manufactured abroad. Owners of copies of works will be unable to determine whether they are protected by § 109, as they will not always know where their goods were manufactured. Copyright holders will have little incentive to make clear the location of manufacturing of their copyrighted works,[3] as greater uncertainty means a greater ability to sell the right to distribute the goods within the United States. Secondary market

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[3] Affirmative evidence of origin is not available on products as they move in commerce because U.S.-made goods are not required to be marked with their origin, with only very limited exceptions such as certain automobiles and products of textiles, wool, and fur. *See* 19 U.S.C. § 1304(a) (2006); 15 U.S.C. §§ 68, 69, 70 (2006); 49 C.F.R. Pt. 583 (2009). *See also* 15 U.S.C. § 45a (2006); Federal Trade Commission, *Enforcement Policy Statement on U.S. Origin Claims* (1997), http://www.ftc.gov/os/1997/12/epsmadeusa.htm.

sellers who cannot afford to purchase this right will be unable to do business unless they are prepared to engage in lengthy and expensive litigation with an uncertain result. A wide variety of important secondary markets in copyrighted works and goods with copyrighted elements will suffer without the protection of the first sale doctrine.

1. Eliminating First Sale for Copyrighted Works Harms Consumers, the Public Interest, and Resellers

Secondary markets are a significant part of the United States economy, providing consumers with ready access to affordable goods and providing economic incentives for valuable goods unwanted by their initial owners to remain in the stream of commerce. The Ninth Circuit's decision casts into doubt the viability of these markets, to the extent that goods are or contain copyrighted works manufactured abroad.

For instance, used booksellers will heavily bear the impact of the Ninth Circuit's limitations on the first sale doctrine. As of 2002, there were 7,198 used booksellers in the United States, who in 2003 earned estimated revenues of $614 million. *See* Book Hunter Press, *The Quiet Revolution: The Expansion of the Used Book Market* (2003);[4] Book Hunter Press, *A*

[4] http://www.bookhunterpress.com/index.cgi/survey1999-03.html.

Portrait of the U.S. Used Book Market (2004).[5] Nor are all resellers of books profit-seeking entities. Libraries frequently find themselves deaccessioning books from their collections, whether to make room for updated collections or in rare, regrettable cases as a fundraising measure. As a seller distributing the books not for its library lending or archival purposes, a library selling a book made outside the United States would face a far more uncertain legal situation than when its actions concerning foreign-produced books were clearly covered by § 109. If the Ninth Circuit's decision stands, any of these types of booksellers could be effectively barred from re-selling foreign-printed books, or have to first find out whether earlier sales within the United States were authorized by the rights holder. Readers looking for affordable copies of works and collectors of rare books alike would have lawful access to a far more limited range of books. For example, without obtaining prior authorization, a bookshop would not be able to sell to a collector of rare books a 1924 inscribed copy of James Joyce's *Ulysses*, as it was printed abroad. *See* Bauman Rare Books, *Ulysses*, with Extremely Rare Inscription by James Joyce.[6] Whether the foreign-produced book was sought by a private collector or by the acquisitions department of a library seeking to

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[5] http://www.bookhunterpress.com/index.cgi/survey.html.

[6] http://www.baumanrarebooks.com/rare-books/joyce-james/ulysses/52477.aspx (last visited June 28, 2010).

improve the public's access to information and literature, the buyer's ability to find and afford those works would be severely curtailed. The Ninth Circuit's holding would increase costs for booksellers, decrease the universe of works in which they could trade, and have negative economic consequences.

Libraries' mission of lending books would similarly face a potentially riskier landscape of liability. Without the basic protections of § 109 for the lending of foreign-printed books, libraries would be constrained in their lending of these books to the more particular or specific exceptions carved out in 17 U.S.C. § 602(3) (2006), or the heavily-litigated provisions of the fair use doctrine in 17 U.S.C. § 107 (2006).

Books are not the only market in copyrighted works that would be directly affected. The valuable market in movie and video game rentals will be harmed if the decision below stands. Movie and video game rental companies deal almost exclusively in copyrighted works for which the precise location of their manufacture may be unclear. If a service like Netflix or Blockbuster does not know where a movie was "pressed" (fixed) onto a DVD, it cannot rely on the protection of the first sale doctrine. The companies thus affected are of considerable size and commercial importance. In 2008, revenues in the movie and video game rental industry were $9.5 billion. U.S. Census Bureau, U.S. Dep't of Commerce,

Service Annual Survey 2008, at 85 tbl.5.1 (2010).[7] Video game rentals for 2008 alone totaled $541 million. The Entertainment Merchant Association, EMA's 2009 Annual Report is Now Available.[8] Netflix's 2009 revenues were $1.67 billion, and Netflix has approximately 12 million subscribers. Netflix, Inc., *2009 Annual Report* 3 (2010).[9] Industry leader Blockbuster earned approximately $3.87 billion in revenue for rentals in 2008. Blockbuster Inc., *Annual Report 2008*, at 75 (2009).[10] Calling into question the legality of millions of Netflix and Blockbuster transactions would chill these companies' purchase of movies and video games and subsequent rental to customers. Since the Ninth Circuit would only allow transfers of domestically manufactured works or authorized transfers of works, Netflix, Blockbuster, or any number of competing independent rental businesses would either have to find out where a particular copy was pressed or whether an authorized sale had occurred in the United States. These requirements would increase costs and drive some of these companies out of business. Consumers would be

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[7] *available at* http://www2.census.gov/services/sas/data/Historical/sas-08.pdf.

[8] http://www.entmerch.org/annual_reports.html (last visited June 28, 2010).

[9] *available at* http://files.shareholder.com/downloads/NFLX/956794187x0x364065/2add3064-3eea-4266-80c3-c6090d4bafc1/Netflix_-_2009_Annual_Report.pdf.

[10] *available at* https://materials.proxyvote.com/Approved/093679/20090403/AR_39020/HTML2/blockbuster-ar2008_0081.htm.

denied a robust, competitive market in movie and video game rentals. As this market is so large, the economic effects of removing the protections of the first sale doctrine will be significant.

Other resellers, like pawnbrokers, auction houses, and online marketplaces would also suffer, fearing potential litigation by manufacturers eager to maintain resale price. Pawnbrokers wary of liability would have to perform inquiries with respect to any copyrighted work that they purchase from people who walk through their doors, which would remove the convenience and practicality that is a major attraction of their business. Auction houses would have to track the location of manufacture and sale history of every item they auction off. Classified pages and online exchanges like eBay, craigslist, and Amazon Marketplace would have to decide between their new liability exposure and the cost of investigating the hundreds of millions of items sold via their sites. Chilling such established facets of the secondary marketplace would have a corrosive economic impact and would not be in keeping with the aims of copyright law.

Charitable, testamentary, and other gift transfers also fall within the reach of the Ninth Circuit's holding. Since the 17 U.S.C. § 106(3) (2006) restriction on distribution covers far more than sales and vending, *all* transfers of foreign-made copyrighted works become infringements under the lower court's interpretation. People would be unable to donate their books to a book drive to benefit a library or a homeless shelter, for example, unless they knew that the book was printed in the United States or that the copyright owner had authorized a sale within the

United States. As a copyright infringement, the charitable donation would subject the donor to statutory damages under § 504 of the Copyright Act, with liability beginning at $750 per infringing copy, and extending to as much as $30,000, or $150,000 in the case of willful distribution of the lawfully made, but foreign-made, copy. 17 U.S.C. § 504. Millions of books are donated to libraries and charities every year. *See, e.g.*, Reading Tree, Frequently Asked Questions;[11] First Book, Frequently Asked Questions;[12] Books for Africa, About Books for Africa.[13] At $750 per work, unauthorized donations of books manufactured abroad could create damages liability in the billions of dollars per year. These damages would have a strong deterrent effect on these everyday, not-for-profit transfers. The lack of § 109 protections would be felt in a testamentary context as well: under the Ninth Circuit's decision, the owner of a work of art cannot leave it to a family member after death, or give it away while still alive, if the work was made outside the United States and never sold within the United States with the copyright owner's authorization. The threat of copyright infringement and its consequent damages will thus harm not only commercial transactions, but also chill charitable, testamentary, and other gift transfers.

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[11] http://www.readingtree.org/faqs.aspx?id=181 (last visited June 28, 2010).

[12] http://www.firstbook.org/site/c.lwKYJ8NVJvF/b.677523/k.C7A8/FAQ.htm (last visited June 28, 2010).

[13] http://www.booksforafrica.org/about/about-bfa.html (last visited June 28, 2010).

2. Applying the Rule Below to Goods Merely Containing a Copyrighted Work Allows These Harms to Spread Further

The Ninth Circuit's interpretation of § 109 will cause the aforementioned harms to spread beyond traditionally copyrighted works – books, art, music, and movies, for example – to all goods merely *containing* a copyrighted work, as the Omega watch does. The copyright holder may thus more tightly control, if not completely eliminate, the secondary market in the good. The Ninth Circuit's decision therefore potentially reaches every imaginable type of consumer product, such as the shampoo at issue in the *Quality King* case, in which the manufacturer, L'anza, sought to control through the use of the copyrighted label affixed to the bottle. *See Quality King Distribs. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998). Hence, virtually any product can be swept into the Ninth Circuit's decision given the ease with which a manufacturer can obtain a copyright registration on the labeling affixed to its products. This enables manufacturers to game the copyright system by adding a copyrighted work, manufactured abroad, to any good in order to seek control over its subsequent transfer or display. Manufacturers may also be incentivized to move manufacturing facilities and the jobs they provide outside of the United States simply to strengthen control over distribution. The harm caused by the Ninth Circuit's holding will be immediate, palpable, and great.

The low burden of obtaining a copyright and the high value of absolute control over a product under the Ninth Circuit's holding makes this abuse of copyright law easy to implement. To obtain and enforce copyright protections, a manufacturer need only scribble a design somewhere on their product, deposit copies of the logo with the Copyright Office and pay a fee of $35 or $45. 2 7 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 7.18 (2009). The design need not add any value to the product, but would only have to meet the very low threshold of originality required by copyright law. *See Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991). After surmounting this low barrier, the manufacturer will obtain the controls afforded by copyright law, including the ability to enjoin importation of a good, as well as have it impounded or destroyed. 17 U.S.C. §§ 502-03 (2006). Under the Ninth Circuit's ruling, a manufacturer would obtain the right to control its product even after the first sale, and would maintain this right until it authorizes the product's sale within the United States. Buyers, in contrast, are left without the first sale doctrine to protect their subsequent disposition of the good.

Omega's actions reflect the type of improper behavior the Ninth Circuit's decision would encourage. Omega engraved the copyrighted globe logo on the back of its watch, *Omega*, 541 F.3d at 983, invisible when being worn and unknown to anyone except perhaps the wearer. The expressive elements of the copyrighted globe logo added little, if any, value to the

watch itself. However, under the Ninth Circuit's holding, the logo did enrich Omega with the power to control the ability of subsequent owners of the watch to dispose of it as they please. There are no substantive copyright or trademark issues at stake beyond the commercial control Omega is trying to exert via copyright law. The watches are genuine and unaltered. Omega is merely attempting to improperly leverage copyright law to use a minor, practically invisible logo to obtain absolute control over the disposal of a high value product. If the Ninth Circuit's holding is allowed to stand, it is likely that manufacturers of other goods, from cars to sports equipment to wine, will register some minor copyrightable element of their good *solely* to take advantage of the heightened control afforded by copyright law. As demonstrated by *Quality King*, common commercial products already bear such copyrighted elements, ready to serve under the Ninth Circuit's ruling as barriers to access to the actual commercial product. *See Quality King*, 523 U.S. 135.

The extension of copyright law controls to goods that merely contain a copyrighted work also means the extension of the above-noted damages regime afforded by copyright law. Violators are, at minimum, liable for actual damages. 17 U.S.C. § 504(b). If a work is registered, statutory damages of between $750 and $30,000 per work may be assessed, regardless of the value of the item. *Id.* § 504(c). In the

case of willful infringement, violators may be assessed statutory damages of up to $150,000. *Id.* These statutory damages, intended to account for unique aspects of damages valuation in copyright infringement, are particularly ill-suited to a situation where the value of the copyrighted image itself (as opposed to the product that bears it) is at best a negligible portion of the product's value.[14] Such a tortured use of copyright results in consequences far more likely to stifle the exchange of works than to promote their progress. *Cf. Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); *Practice Mgmt. Info. Corp. v. American Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772 (5th Cir. 1999); *DSC Commc'ns Corp. v. DGI Techs., Inc.*, 81 F.3d 597 (5th Cir. 1996).

The effects of the Ninth Circuit's holding will chill the transfer of not only goods containing a copyrighted work manufactured abroad, but also those manufactured domestically. As discussed above with reference to copyrighted works, it is often difficult to determine where a good containing a copyrighted

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[14] Indeed, Omega makes the copyrighted Omega Globe Design available for no charge on its website. *See, e.g.*, Omega, Constellation Double Eagle Chron, *available at* http://www.omegawatches.com/fileadmin/images/watches/additional/12162415013001-40.jpg (last visited July 2, 2010). The Omega Globe Design is at the bottom of the watch image, around 7 o'clock on the watch's back.

work was manufactured. Uncertainty over whether § 109 applies can keep sellers from selling and buyers from buying (for fear of being unable to sell in the future). Furthermore, manufacturers have no incentive to clarify the location of manufacture because the uncertainty may give them *de facto* control over the disposition of goods.

This chilling effect on transfers will harm many large markets. For example, in 2009, 4.4 million cars were imported into the United States. *Service Annual Survey 2008*, at 85 tbl.5.1.[15] Most, if not all, of these cars contained both the logo of their manufacturer in a number of places and software on internal electronics. If this logo or software is copyrighted, these 4.4 million cars may never, unless authorized by the manufacturer, enter the used car market – which in 2008 comprised the sales of 36.5 million cars at a total value of $292 billion. Bureau of Transportation Statistics, U.S. Dep't of Transportation, *National Transportation Statistics 2010* tbl.1-17 (2010).[16] In 2008, approximately 64% of used car sales were through non-affiliated sellers. Nat'l Indep. Auto. Dealer's Ass'n, *Used Car Industry Report 2009*, at 14 (2009). Any sales in these markets not explicitly authorized by manufacturers will be completely

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[15] *available at* http://www2.census.gov/services/sas/data/Historical/sas-08.pdf.

[16] *available at* http://www.bts.gov/publications/national_transportation_statistics/.

undermined. Furthermore, manufacturers have an inherent economic interest in suppressing these markets, since fewer available used cars would drive consumers to buy directly from manufacturers. In addition, car rental companies, which earned an estimated $20.46 billion in revenue in 2009, *Market Data: U.S. Car Rental Market*, Auto Rental News, Vol. 22, No. 8, at 4 (2009),[17] will be unable to rent any of these foreign made cars (or cars bearing a foreign-made copyrighted work) for fear of violating copyright law. The same scenarios can easily play out in any number of large and important secondary markets for physical goods, with the Ninth Circuit's interpretation of § 109 affecting nearly all sectors of commerce in the secondary market.

Again, business focused generally on the secondary sales of goods will be heavily affected, and in markets ranging far beyond those for books, music, and other media. Auction houses, pawnshops, and online marketplaces like eBay, craigslist, and Amazon all deal in a wide variety of second hand goods – which do, or could easily, contain a copyrighted element – for which the location of their manufacture may be unclear. If these goods suddenly acquired copyright protection without the limitations of the first sale doctrine, the harm to these large markets could be staggering. eBay's secondary market in goods alone is

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[17] *available at* http://arn.epubxpress.com/wps/portal/arn/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3iLkCAPEzcPIwMDL3NnA0-TICdzX2cnY_dQE_2CbEdFAFIPKiI!/.

valued at approximately $60 billion, with 175 million goods for sale at any time. Brief for eBay Inc. as *Amicus Curiae* in Support of Petitioner at 1, *Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423 (2009). Both sellers and buyers will be far less willing to transact over even the lowest value goods in these markets, with the risk of infringement and large statutory damages looming. With fewer buyers and sellers, these valuable markets would be greatly reduced.

As with copyrighted works, it is not just for-profit industries and for-value sales that suffer from restraints on alienation of goods containing copyrighted works. Thousands of people give away goods containing copyrighted works to charity, as gifts, or as part of testamentary transfers. For example, many articles of clothing come branded with some logo or design, be it visible to anyone but the wearer or not, that can be copyrighted. If the Ninth Circuit's decision were taken to its extreme, an owner could never donate foreign made clothes to any of the 25,000 thrift, resale and consignment stores in the United States without the potential risk of exposure to liability for copyright infringement. *See* Nat'l Ass'n of Resale and Thrift Shops, Industry Statistics & Trends.[18] Goodwill Industries alone generates approximately $1.9 billion in retail sales from its over 2,000

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[18] http://www.narts.org/i4a/pages/index.cfm?pageid=3285 (last visited June 2, 2010).

not-for-profit stores. *Id.* However, donations to Goodwill would plummet if such transfers of clothing were held to be copyright infringement. Likewise, foreign made cars could not be donated to the Salvation Army. Many toys are made overseas. During the holidays, these toys could not, absent permission, be donated to Toys for Tots. General gift giving would also be restricted. A bottle of wine with a copyrighted label manufactured abroad could not be given as a gift at a dinner party, because this would infringe the copyright of the label maker or winery. A testamentary transfer of jewelry inscribed with the manufacturer's logo would also be prohibited. The Ninth Circuit's holding will drastically limit not only sales of goods, but a wide variety of gift, charitable, and testamentary transfers.

Defendants might assert defenses other than the first sale doctrine to such claims, such as arguing that the alleged infringement was *de minimis* or protected by the fair use doctrine. Nevertheless, the increased liability exposure and its attendant damages illustrates the problems with the Ninth Circuit's holding, and its potential to chill transfer of all goods with copyrighted works affixed to them, seriously damaging a wide variety of important secondary markets.

B. Manufacturers Can Deliberately Foreclose the Secondary Market by Manufacturing Abroad

Manufacturers can also ensure that they may exploit their new restrictions on secondary transfers by moving manufacturing operations overseas. Further, the entire good need not be manufactured abroad, but only the copyrighted element of a good. Thus, if a manufacturer desires to completely foreclose the secondary market in a good, it need only obtain the copyright and manufacture it abroad to render all subsequent unauthorized transfers of a good a violation of copyright law.

A publishing house may ensure that its books are printed abroad to eliminate the secondary market. Manufacturers will be driven to produce some part of their goods, be it just a small element like the Omega globe logo or the entirety of a book, outside of the United States to take advantage of the Ninth Circuit's holding. A company can create a small logo abroad, affix it to a good (which may be manufactured either in the United Sates or abroad), and thus argue that the first sale doctrine is pre-empted. This will encourage companies to try to game the copyright laws to foreclose secondary markets, in addition to driving manufacturing out of the country.

The Ninth Circuit's holding provides a clear strategy for a manufacturer seeking to foreclose secondary markets by obtaining absolute control over

its product, while also doing palpable damage to consumers, resellers, and the economy as a whole.

II. The Ninth Circuit's Interpretation Will Allow Enjoining of Parallel Imports, Contrary to Congressional Intent and Rational Policy

In addition to suppressing secondary markets, the Ninth Circuit's interpretation of § 109, if upheld, would also permit suppression of parallel imports (non-counterfeit goods imported without the manufacturer's permission). That result would violate congressional intent and have significant harmful effects on the economy.

A. By Co-Opting Copyright Law to Restrain Parallel Imports, the Ruling Below Violates Congressional Intent

The Ninth Circuit's opinion imports into copyright law a policy that Congress and the courts have rejected for trademark law. In an analogous trademark law case, the Ninth Circuit denied a trademark holder's attempt to use trademark law to enjoin parallel imports. *See NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987). As the Ninth Circuit pointed out in that decision, "This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an

American subsidiary with nominal title to its mark." *Id.* at 1511.

Similarly, § 602 of the Copyright Act does not offer foreign manufacturers a vehicle for establishing a worldwide discriminatory pricing scheme simply by registering a copyrighted logo with the Copyright Office and then manufacturing the copyrighted logos abroad. Nothing in the legislative history or case law surrounding § 602 suggests any policy to restrict imports of goods, create a system of international price discrimination, or give manufacturers control over the importation of goods that are not themselves copyrighted but merely have a copyrighted logo. As the Third Circuit said in a similar case:

> Although this case turns purely on copyright law, we recognize that the underlying "gray market," or "parallel importing," issues really are dominant. Various economic factors – including the manipulation of global currency standards – encourage transactions in which goods are produced in this country, shipped and sold to foreign concerns, and then returned to the United States for resale at less than the domestic prices.
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> This practice has led to complaints by manufacturers seeking a fair return on their costs of promotion and servicing of warranties in this country. Equally vocal are consumer advocates asserting the desirability of access to identical goods at lower costs. Because contractual remedies have proved inadequate, *see Johnson & Johnson Products v. DAL Int'l*

> *Trading Co.*, 798 F.2d 100 (3d Cir. 1986), domestic manufacturers now invoke the copyright law to advance their economic interests. This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.

See Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1099 (3d Cir. 1988).

Furthermore, statutes passed since the creation of § 602 have expressed a continued understanding that parallel imports are legal. *See, e.g.*, Stop Counterfeiting in Manufactured Goods Act, Pub L. No. 109-181, § 1(b)(3)(B), 120 Stat. 285, 287 (codified as amended at 18 U.S.C. § 2320(e)(b) (2006)) (explicitly exempting authorized uses of marks from the act's prohibitions on the import of "counterfeit marks"); 151 Cong. Rec. H3699-05 (2005) (statement of Rep. Lofgren) ("We now have a bill that protects manufacturers, targets illegitimate actors, protects consumers, and leaves the legitimate parallel market unscathed."). Congressional intent, as reflected in the text of § 602 and subsequent statutes, was to permit parallel imports. There is no basis for using copyright law to hamstring this market. Copyright law grants a monopoly over the copyrighted work to the copyright holder. The purpose of this monopoly is not to allow

manufacturers to control trade, but rather to promote creative activity. *See, e.g., Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). As such, the Ninth Circuit's interpretation of § 109 and § 602 is ill-advised, as it imports an alien policy – which the court previously rejected in the trademark law context – into copyright law.

B. Restraining Parallel Imports Will Harm Consumers, Resellers, and the Economy at Large

By restraining parallel imports, the decision below will harm consumers, resellers, and the economy at large. The parallel market enables lower-cost alternatives to flow to consumers and resellers, encouraging competition, efficiency, and an increase in overall economic welfare. Ryan L. Vinelli, *Bringing Down the Walls: How Technology is Being Used to Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights*, 17 Cardozo J. Int'l & Comp. L. 135, 143 (2009).

Both the value of the parallel market and the amount of savings it affords consumers are large. The value of the parallel market has steadily grown over the past quarter-century. In 1985, *Time Magazine* reported that the United States parallel market was valued at approximately $5.5 billion of the nation's retail trade. Raji Samghabadi & Dan Goodgame,

Inside the Gray Market, Time Magazine, Oct. 28, 1985.[19] By 2000, the United States parallel market had grown to "somewhere between $10 and $20 billion a year." Olga Kharif, *The Global Economy's Gray-Market Boom*, BusinessWeek Online, Nov. 30, 2000.[20] Recently, the parallel market in information technology alone was estimated to be more than $40 billion a year. Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing* 1 (Harv. Bus. Sch., Working Paper No. 09-098, 2009).[21] By enabling manufacturers to use copyright law to restrict parallel imports, the Ninth Circuit's decision will inhibit further growth and development of the parallel market.

The amount of savings consumers enjoy and profits resellers are able to make thanks to the parallel market is also large, but will be harmed by the decision below. The parallel market "saves consumers billions of dollars each year." 151 Cong. Rec. H3699-05 (2005) (statement of Rep. Conyers). Consumers enjoy the benefits of the parallel market at stores such as "T.J. Maxx, Marshall's, Ross, and Loehmann's[, that] sell billions of dollars of gray market designer clothing, shoes, perfumes, luggage, jewelry, china, and other goods every year . . . for lower prices

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[19] *available at* http://www.time.com/time/magazine/article/0,9171,960231,00.html.

[20] http://www.businessweek.com/bwdaily/dnflash/nov2000/nf20001130_555.htm.

[21] *available at* http://www.hbs.edu/research/pdf/09-098.pdf.

than in department stores or boutiques." Kimberly Reed, *Levi Strauss v. Tesco and E.U. Trademark Exhaustion: A Proposal for Change*, 23 Nw. J. Int'l L. & Bus. 139, 165 (2002) (citation omitted). Taking advantage of the gray market, these resellers have become large and profitable. In 2009, the TJX Companies, Inc., which owns T.J. Maxx and Marshalls, made over $20 billion in sales. The TJX Companies, Inc., *2009 Annual Report* 21 (2010).[22] Likewise, in the same year, Ross Stores made over $7 billion in sales. Ross Stores, Inc., *2009 Annual Report* 2 (2010).[23] Both the savings enjoyed by consumers and the success enjoyed by resellers will be jeopardized by the Ninth Circuit's decision.

Restraining parallel imports will harm consumers and resellers alike. In the current economy, consumers rely on the competition provided by parallel imports to keep prices affordable. The Ninth Circuit's removal of § 109 protections will eliminate the ability of resellers to obtain parallel imports and provide a steady supply of lower cost goods to consumers. With both consumers struggling to afford goods and resellers unable to acquire cheaper goods due to price discrimination, the economy as a whole will further suffer.

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[22] *available at* http://thomson.mobular.net/thomson/7/2968/4250/.

[23] *available at* https://materials.proxyvote.com/Approved/778296/20100326/AR_57653/HTML1/default.htm.

III. The Ninth Circuit's Interpretation of § 109 is Erroneous

In order to reach its holding that § 109 does not apply to foreign-made works, the Ninth Circuit interpreted the phrase "lawfully made under this title" as a geographic limitation rather than a legal one. This interpretation of § 109 is inconsistent with the purpose of the statute, congressional policy towards parallel imports, the text of Title 17 and this Court's precedent. Accepting the Ninth Circuit's holding will lead to absurd contradictions in statutory interpretation, showing that the lower court's decision is in need of reversal.

A. Properly Read, "Lawfully Made Under This Title" Allows § 109 to Apply to Sales of Works Made Outside the United States

The Ninth Circuit held that the phrase "lawfully made under this title" precludes application of 17 U.S.C. § 109 to works made outside the United States. For several reasons, this finding is neither necessary nor reasonable.

1. A Reasonable Reading Allows § 109 to Apply to International Sales Without Requiring Extraterritorial Application of the Law

The phrase "under this title" is used throughout Title 17 to mean "under the terms of the statutes

within." The laws of the United States Code only apply within the country's geographical limits, but reading "under this title" as synonymous to "within this country" requires a large and unnecessary logical leap. Firstly, if Congress had wished to limit the statute's application to works made within the United States, there are several verbal configurations that would easily and unambiguously convey that meaning. "Within the United States" is the simplest and most obvious such configuration. Indeed, the phrase "within the United States" is used in 17 U.S.C. § 1309 (2006). A basic search reveals that the phrase occurs several thousand times elsewhere in the United States Code.[24]

Reading § 109's condition of "lawfully made under this title" as a legal restriction rather than a geographic one does not require extraterritorial application of United States law. Congress may grant protections contingent upon certain actions that may occur abroad, such as the original creation of a work, or whether a work was "acquired abroad." *Quality King*, 523 U.S. at 145 n.14, *accord Omega*, 541 F.3d at 987. Other provisions of Title 17 rely on actions and occurrences abroad. For example, 17 U.S.C. § 104(b) (2006) states that published works are "subject to protection under this title" if the work was first published in any nation that is a "treaty party." Any

[24] *See, e.g.*, http://www.google.com/search?as_q=%22within+the+United+States%22&as_sitesearch=http%3A%2F%2Fwww.law.cornell.edu%2Fuscode%2F&as_qdr=all.

work created in Switzerland (a "treaty party," since it is a party to the Berne Convention and the WIPO Copyright Treaty, among others) is "under [Title 17]" according to § 104. This section grants a protected status to certain works based on an event (their publication) that occurs outside the geographic boundaries of the United States. Section 104 does not extend American law extraterritorially. Rather, it acknowledges the publication of a foreign work as a relevant *fact* that bears upon the legal status the work enjoys *within* the United States. Similarly, § 109 can regard as relevant facts either the legal status of a work under the laws of another country, or set of facts that would govern whether the work would have been lawfully made had it been made in the United States.

Indeed, the Ninth Circuit itself found that works manufactured abroad could be "lawfully made under this title" within the meaning of § 109. The Ninth Circuit has held that a copy of a work manufactured abroad but sold within the United States is protected by § 109, thus implicitly recognizing that § 109's language applies to works made abroad. *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994). Furthermore, the statutory language "lawfully made" appears to have always been intended to apply to situations in which the goods were made outside the United States, including "where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." *Supplementary Report of the Register of*

Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, 89th Congress, 1st Sess., 148-50 (Comm. Print 1965), *reprinted in* 4 *Omnibus Copyright Revision Legislative History* (Grossman ed. 1976), at 150, *cited with approval in Cosmair, Inc. v. Dynamite Enters., Inc.*, 1985 WL 2209, at *4 (S.D. Fla. Apr. 5, 1985). Despite the implied overruling of some portions of *Drug Emporium* in *Quality King*, *Drug Emporium* and the legislative history of the Copyright Act both illustrate an understanding that Congress can take note of a work's sale or legal status in another country without applying United States law extraterritorially. When Congress does so, it does not in any way affect the rights of parties conducting business under foreign law. Determinations of § 109's applicability only affect the application of United States law within the boundaries of the United States.

2. The Ninth Circuit's Reading Contradicts This Court's Precedents

In addition to being contrary to congressional intent and good policy, the Ninth Circuit's holding runs contrary to this Court's precedent.

As earlier discussed, the Ninth Circuit's holding would have far-reaching negative ramifications. In order to mitigate some of the negative effects of its interpretation of § 109, the Ninth Circuit added an exception to *Drug Emporium*, 38 F.3d 477. In *Drug Emporium*, the Ninth Circuit held that first sale

applies to § 602 if copyrighted works were manufactured abroad when "there has been a 'first sale' in the United States." *Drug Emporium*, 38 F.3d at 481 (emphasis removed). The Ninth Circuit added this complication because it recognized in *Drug Emporium* that removing § 109 protections from copyrighted works manufactured abroad "would lead to absurd and untenable results," including the fact that "foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States." *Drug Emporium*, 38 F.3d at 482 n.8.

The holding in *Drug Emporium*, however, is no longer good law and its use by the Ninth Circuit in this case is improper. In *Quality King*, this Court explicitly held that "the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court *even if the sale occurred abroad*." *Quality King*, 523 U.S. at 145 n.14 (emphasis added). The Ninth Circuit's limitation on the first sale doctrine in *Drug Emporium* is in direct contradiction with this holding. As such, the Ninth Circuit's holding in *Drug Emporium* is "clearly irreconcilable" with this Court's precedent in *Quality King* and is no longer controlling in the Ninth Circuit. *See Miller v. Gammie*, 335 F.3d 889, 893 (9th Cir. 2003) (holding that "in circumstances . . . where the reasoning or theory of our prior circuit authority is clearly irreconcilable with the reasoning or theory of intervening higher authority, a three-judge panel should consider itself bound by the later and controlling authority"). The Ninth Circuit,

however, chose not to address this issue in the case below, *see Omega*, 541 F.3d at 990, instead choosing to apply *Drug Emporium*'s conflicting holding.

If, somehow, the holding of *Drug Emporium* does survive, its mitigating effect on the widespread negative consequences of the holding below will only be minor. Resale, lending, display, gifting, and other methods of disposing of copyrighted works or goods with copyrighted elements manufactured abroad will still be unlawful if first sold abroad. As it will be impossible or impractical for owners to determine whether the first sale occurred domestically or abroad, the chilling effects of the holding below will inhibit transfers of works regardless of where the first sale occurred. Furthermore, manufacturers need only ensure that all first sales occur abroad to completely foreclose secondary markets. Likewise, parallel imports will still be completely eliminated as, by definition, these occur without the copyright owner's consent. Finally, the Ninth Circuit's application of *Drug Emporium* does not rectify the absurdity that, under the holding below, foreign manufactured works receive greater protection than domestically manufactured works. According to the Ninth Circuit, works manufactured in the United States are subject to the first sale doctrine, while goods manufactured elsewhere are not, so long as the first sale does not occur in the United States. The mitigating effect of the *Drug Emporium* decision will be extremely limited, and the negative consequences of the decision below will still be far-reaching and great.

This Court should insist upon a proper reading of § 109 to align the law with its precedents and eliminate the negative ramifications of the holding below.

B. The Ninth Circuit's Interpretation of "Lawfully Made Under This Title" is Inconsistent with its Use Throughout Title 17

The full phrase "lawfully made under this title" appears in two other contexts within Title 17. In each of these cases, using the Ninth Circuit's interpretation of this phrase would lead to absurd results. On the other hand, understanding the phrase to mean "made not in contravention of Title 17" would allow a logically consistent reading.

Section 110 provides exceptions from infringement for certain types of performances and displays. 17 U.S.C. § 110 (2006). In particular, § 110(1) allows for the performance or display of copyrighted works in course of teaching at educational institutions. However, this exception is conditioned on a two-part test. First, the copy used must be "lawfully made under this title." 17 U.S.C. § 110(1). Second, the person responsible must not "kn[o]w, or ha[ve] reason to believe" that the copy "was not lawfully made." *Id.*

Under the Ninth Circuit's interpretation of "lawfully made under this title," a teacher could not show copies of works manufactured abroad, so long as the teacher knew or had reason to believe that the

copy was not lawfully made. Furthermore, this interpretation leads to the strange scenario in which a teacher may be liable for infringement for displaying a lawfully foreign-made work with the mistaken belief that it was unlawfully made. Under the Ninth Circuit's interpretation, a work lawfully made abroad still triggers the first prong of the test, as it would not be "lawfully made under this title." Thus, under one reading of the statute, a teacher need only mistakenly believe that a work is an infringing copy to be liable. This absurd disconnect between the necessary *scienter* and the necessary facts for culpability is a product of the Ninth Circuit's mistaken interpretation of "lawfully made under this title."

If, instead, a court were to interpret the second prong's "lawfully made" as meaning the same as the first prong's "lawfully made under this title," the Ninth Circuit's reading of that phrase would suggest that the teacher would be liable simply for displaying an audiovisual work she knew to be made outside of the United States, an even stranger result leading to a situation – the stronger protection for foreign works than domestic ones – that the Ninth Circuit has attempted to avoid in the § 109 context.

Likewise, the Ninth Circuit's interpretation creates absurd results when applied to the Audio Home Recording Act, which requires domestic manufacturers and importers of digital audio recording devices and media to pay a royalty to the Register of Copyrights, who distributes the funds to copyright

holders whose works or recordings have been embodied in a recording "lawfully made under this title." Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (codified at 17 U.S.C. §§ 1001(7), 1006(a) (1992)). Under the Ninth Circuit's interpretation, a would-be "interested copyright party" under §§ 1001(7)(A) or (B) (2006) would be ineligible to receive royalties if the musical recordings that embodied his work were all made outside the United States. Thus, royalty payments from sales of digital audio recording devices and digital audio recording media would cease to flow to artists whose sound recordings were embodied in musical recordings made anywhere but in the United States, regardless of where copies of those recordings were eventually distributed. Such a result is plainly not the purpose of the Audio Home Recording Act and is evidence of the improper interpretation of the Ninth Circuit.[25]

The Ninth Circuit's interpretation of "lawfully made under this title" is inconsistent with its use throughout Title 17. Its reading of the statute would create absurd results. As such, the Ninth Circuit's interpretation should be rejected.

---

[25] The definitions within the confines of Audio Home Recording Act of "distribute" and "manufacture" both define those actions as taking place "in the United States," 17 U.S.C. §§ 1001(6), (8), further supporting the proposition that in this context, Congress expresses a geographic limitation on a statute's application thusly, and not by using the phrase "lawfully made under this title."

CONCLUSION

For the aforementioned reasons, the Court should find for the Petitioner.

Respectively submitted,

GIGI B. SOHN
Counsel of Record
SHERWIN SIY
PUBLIC KNOWLEDGE
1818 N. St. NW
Suite 410
Washington, DC 20036
(202) 861-0020
gbsohn@publicknowledge.org
Counsel for Amici Curiae

AMICUS CURIAE BRIEF

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IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF *AMICI CURIAE* OF RETAIL INDUSTRY LEADERS ASSOCIATION, NATIONAL ASSOCIATION OF CHAIN DRUG STORES, AMAZON.COM, INC., GAMESTOP CORP., QUALITY KING DISTRIBUTORS, INC., SAM'S WEST, INC., AND TARGET CORPORATION, IN SUPPORT OF PETITIONER

SETH D. GREENSTEIN
CONSTANTINE CANNON LLP
1301 K Street N.W.,
Suite 1050 East
Washington, D.C. 20005
(202) 204-3500
sgreenstein@constantinecannon.com

Counsel for Amici Curiae

230880

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

250 51

QUESTION PRESENTED

Under the Copyright Act's "first sale" doctrine, codified at 17 U.S.C. § 109(a), the owner of any particular copy "lawfully made under this title" may resell that good without authorization from or further obligation to the copyright holder. In *Quality King Distribs., Inc.* v. *Lanza Research Int'l, Inc.*, this Court addressed "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies," and answered it in the affirmative. *Id.*, 523 U.S. 135, 138 (1998). In the decision below, the Ninth Circuit limited *Quality King* to its facts, and held that the first sale doctrine would not apply with respect to copies manufactured abroad and sold in the United States. The question presented here is:

Whether the Ninth Circuit correctly held that the requirement of Section 109(a) that the copy be "lawfully made under this title" excludes all copies made outside the United States, even if those copies were made by or with the authorization of the United States copyright owner?

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STATEMENT OF INTEREST[1]

Retail Industry Leaders Association ("RILA"), established in 1969 as the Mass Retailing Institute, represents the interests of retailers, product manufacturers, and service suppliers. Its 600 member companies include the largest and fastest growing companies in the retail industry, and account for more than $1.5 trillion in annual sales. RILA members provide millions of jobs and operate more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.

The National Association of Chain Drug Stores ("NACDS") represents 154 traditional drug stores, supermarkets, and mass merchants with pharmacies – from regional chains with four stores to national companies. NACDS members also include more than 900 pharmacy and front-end suppliers, and over 70 international members from 24 countries. Chains operate 37,000 pharmacies, and employ more than 2.5 million employees. The total economic impact of all retail stores with pharmacies transcends their $815 billion in annual sales. Every $1 spent in these stores creates a ripple effect of $3.82 in other industries, for a total economic impact of $3.11 trillion, equal to 26 percent of GDP.

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1. The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amici curiae*, their respective members, or their counsel made a monetary contribution to its preparation or submission.

Amazon.com, Inc. was incorporated in 1994, with its principal corporate offices located in Seattle, Washington. Amazon.com started selling books online in 1995, out of the belief that only the Internet could offer the convenience of browsing millions of book titles in a single sitting. Amazon.com also offers for sale via its websites in the United States and foreign countries a broad array of entertainment, electronic, and household products. Since 1999, when Amazon.com offered its e-commerce platform to other retailers and to individual sellers, hundreds of thousands of world-class retail brands and individuals have sold goods to tens of millions of customers through the Amazon.com e-commerce platform.

GameStop Corp. is the world's largest video game retailer, selling new and used video game software, hardware and accessories. The company operates over 6,200 stores in the United States and throughout the world. GameStop owns two successful e-commerce retail sites and the largest multi-platform video game publication in the United States. Headquartered in Grapevine, Texas, GameStop is a Delaware company traded on the New York Stock Exchange with over 45,000 employees.

Quality King Distributors, Inc. is a family-owned wholesale distributor of health, beauty and cosmetics products, located in Bellport, N.Y. Founded in 1961 in a storefront in Queens, New York, Quality King has become one of the country's largest wholesalers operating in the secondary market and one of the largest privately-held businesses in the tri-state area surrounding New York City. Quality King's customer

base includes most of the mass retail chains including drug store chains, mass discount chains, grocery chains and independent stores. Quality King ships to customers in all 48 of the contiguous states as well as the District of Columbia. Notably, Quality King was the petitioner in *Quality King Distribs., Inc.* v. *Lanza Research Int'l, Inc.*, 523 U.S. 135 (1998), in which the Court last had occasion to address the application of the first sale doctrine of the Copyright Act to imported goods incorporating ancillary copyrighted works.

Sam's West, Inc., doing business as Sam's Club, has its principal place of business in Bentonville, Arkansas, and is a division of Wal-Mart Stores, Inc. Sam's Club offers savings to its members (including small businesses and consumers) on products and services in categories including health, home, jewelry, outdoor, pharmacy, photo, toys and video in its Clubs and SamsClub.com. The first Sam's Club opened its doors in Midwest City, Oklahoma in 1983. Today, Sam's Club serves more than 47 million U.S. members with locations nationwide, and internationally in Brazil, China, Mexico and Puerto Rico. Sam's Club employs more than 100,000 people worldwide.

Target Corporation, headquartered in Minneapolis, Minnesota, is a leader in discount retailing, offering stylish merchandise at affordable prices. The first Target store opened in Roseville, Minnesota, in 1962, as the first mass market discount retail store opened by The Dayton Company – a company that traces its heritage back more than 115 years to the first stores opened in downtown Minneapolis by its founder, George Dayton. Today, Target operates approximately 1,700

stores in 49 states, and employs approximately 350,000 people nationwide. Through its website, Target.com, Target offers for sale and home delivery a wide variety of books, music, videos, household and health and beauty products.

The *amici* and their members exemplify wholesale and retail commerce in the 21st century. They include suppliers, importers, purchasers, and retailers that produce, buy, and resell domestic and imported consumable and durable goods to businesses and the public. They encompass the largest retailers in the United States and the world. These companies also include many of America's largest retailers of copies of copyrighted works such as books, DVDs, video games, and compact discs. They reach consumers through brick and mortar stores located in urban, suburban, and rural communities; and through the largest retail presence in cyberspace, they enable anyone to buy and sell goods online around the country and the world. In short, the *amici* and their members bring goods to consumers physically in every community, and virtually on any home computer.

Thus, the *amici* have an interest, directly as to themselves and indirectly on behalf of consumers, in maintaining robust interstate and international commerce guaranteed under the first sale doctrine of U.S. copyright law.

ARGUMENT

Commerce in copies of copyrighted works constitutes a substantial part of the United States economy and culture. Copyright protection has a far broader effect on commerce, in that copyright registrations also can cover mundane elements of designs or packaging ancillary to ordinary household goods. Robust commerce in copies of copyrighted works and such general merchandise depends on the confidence that retailers and consumers will be free from downstream restraints imposed by a copyright owner. That right is secured by the first sale doctrine.

The application of the first sale doctrine to imported goods and copies has taken on increasing importance over the last decades as the value of imported products sold in the United States continues to grow. The Court's decision in *Quality King Distribs., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135 (1998) ("*Quality King*"), provided importers, distributors, and retailers welcome certainty that lawfully produced, non-piratical goods could be imported and resold in the United States under the correct interpretation of the first sale doctrine. And consumers benefited from lower prices and greater competition from sales of these lawfully-made imported goods.

The first sale doctrine thus ensures to businesses and individuals the right to acquire and resell goods produced by the copyright owner. The principles underlying the first sale doctrine are of vital interest to suppliers, retailers, and their customers. Those principles should apply regardless of whether the goods first were produced in the United States or imported from abroad.

The Ninth Circuit decision, *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) ("*Omega*"), renews troubling concerns as to the scope of first sale exemption from claims of copyright infringement against authentic goods — even goods produced by or under the authority of the United States copyright owner. It rewrites the first sale statute so as to limit its scope only to domestically-produced goods. Such an interpretation is neither required by nor consistent with the plain language of 17 U.S.C. § 109 or the principles of the first sale doctrine as articulated in *Quality King*. Moreover, it conflicts with sound copyright policy, to the detriment of American businesses and consumers that benefit from discount pricing of genuine parallel imported goods.

In support of the proper interpretation of the first sale doctrine by the Petitioner Costco, the *amici* submit this brief to inform the Court of the potentially destructive impact of *Omega* upon modern commerce by excluding foreign-made goods from the first sale doctrine, and to urge the Court to reverse the judgment of the appellate court.

I. Robust Commerce, Including Commerce In Imported Goods And Copies Of Copyrighted Works, Depends Upon The First Sale Doctrine.

In *Quality King*, this Court analyzed the interaction of Sections 106, 109, and 602 of the Copyright Act, and held the importation prohibitions of Section 602(a) are "simply inapplicable" to both domestic and foreign owners of lawfully-made copies imported for resale in the United States. *Id.*, 523 U.S. at 145. Upon the first

sale, even unauthorized resales do not infringe the copyright owner's exclusive right to distribute. *Id.* at 143. "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Id.* at 152.[2]

Quality King gave full force to the first sale doctrine, by placing lawful goods purchased by retailers and consumers beyond the reach of the copyright owner:

> After the first sale of a copyrighted item "lawfully made under this title," any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an "owner" of that item. Read literally, § 109(a) unambiguously states that such an owner "is entitled, without the authority of a copyright owner, to sell" that item.

Id., 523 U.S. at 145.

Quality King, like *Omega*, analyzed first sale in the context of a "parallel importation" of goods. Generally, "parallel importation" is defined as the purchase in a foreign country of authentic consumer products for importation into and resale on the domestic market

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2. *Cf. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2115 (2008) ("[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item").

without the authorization of the brand owner.[3] More simply, parallel importation refers to "goods diverted from a brand owner's authorized sales channel."[4] Sometimes referred to as the "gray market," parallel importation is distinct from trafficking in counterfeit or stolen goods (*i.e.*, the "black market"). This common arbitrage practice enables retailers to sell genuine products at a discount, giving American consumers the benefit of advantageous pricing. Parallel importation also prevents manufacturers from maintaining price-driven market segmentation by propping up prices domestically and depressing prices in foreign markets, in favor of global equilibrium pricing. Moreover, the difference in pricing may have no relationship to the value of a reasonable royalty, such that effectuating price discrimination under Section 602 serves no policies properly cognizable under the Copyright Act.

By affirming the primacy of the first sale doctrine over the importation ban, the Court granted a crucial victory to commercial businesses and consumers alike. As shown below, narrowing the scope of the first sale doctrine, as *Omega* threatens to do, will create

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3. *Cf. K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 285 (1988) ("A gray-market good is a foreign-manufactured good, bearing a valid United States trademark, that is imported without the consent of the United States trademark holder"). In *Quality King*, the Court effectively revised that definition, within the context of copyright, to also include goods manufactured domestically but exported by the domestic copyright owner.

4. David R. Sugden, *Gray Markets: Prevention, Detection and Litigation* 4 (Oxford University Press 2009), *quoting* David M. Hopkins *et al.*, *Counterfeiting Exposed* 10 (2003).

impossible burdens upon retail commerce that potentially will cost businesses and consumers tens of billions of dollars annually.

A. The *Omega* Decision Potentially Affects Billions of Dollars of Domestic and International Commerce in Copyrighted Works and Non-copyrightable Goods.

Mass retailers attract customers by offering high quality goods at reasonable and discount prices. A substantial percentage of the products retailers offer for sale in the United States are produced and first sold abroad and imported. Many retailers purchase goods for resale from wholesale importers and distributors, who arbitrage goods to take advantage of lower foreign pricing. Retailers need confidence that genuine foreign-produced goods can be purchased and resold in U.S. commerce free from claims of copyright infringement.

To retailers and consumers, the first sale doctrine is the Magna Carta of property rights and open commerce in copies of copyrighted works.[5] The first sale doctrine enables distributors and retailers to purchase and resell genuine products acquired domestically or abroad without fear of copyright liability. A major part of the value proposition retailers offer the public is

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5. The first sale doctrine plays an equally fundamental role in American cultural life. It permits the lending of copyrighted books, music, and video by public libraries, and the public display of works of art. *See* 17 U.S.C. § 109(a), (c). Bequests to museums or resale of fine art such as paintings, prints, sculpture, and photographs, also are protected by the first sale doctrine. *Id.*

secured by the first sale doctrine, namely, the right to lend, give away, or resell goods they purchase. The ready availability of previously-owned books, CDs, vinyl records, DVDs and video games offered for resale by companies such as Amazon.com and GameStop, demonstrates the vitality of economic aftermarkets for copies of copyrighted works.

As shown below, the court of appeals' constriction of the first sale doctrine could have an immense impact on retail sales of new copyrighted copies, on lawful retail aftermarkets for copyrighted works, and on imported goods generally.

1. Copyrighted works sold annually at retail in the United States – new and aftermarkets.

The first sale doctrine applies to goods readily identifiable as copyrighted works, such as copies of motion pictures and books, and phonorecords of copyrighted sound recordings. According to government and industry estimates, in 2009:

- Retail commerce in copyrighted works sold in the United States (such as books, recorded music, motion pictures, and magazines) reached $881 billion[6]

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6. U.S. Bureau of Economic Analysis, U.S. Dep't of Commerce, National Economic Accounts, Table 2.4.5U. Personal Consumption Expenditures by Type of Product , *http://www.bea.gov/national/nipaweb/nipa_underlying/TableView.asp?SelectedTable=17&FirstYear=2009&LastYear=2010&Freq=Qtr&ViewSeries=Yes* (last visited July 7, 1010).

- Consumers spent $16.4 billion to purchase and rent movies on DVD[7]

- Sales of recorded music in physical format exceeded $4.56 billion[8]

- Book sales reached $16.7 billion[9]

- The electronic game industry was estimated to constitute a $20 billion market segment in the United States[10]

The first sale doctrine also gives rise to aftermarkets for many of these copyrighted works. Aftermarkets for rental and purchase enable more consumers to enjoy a greater number of copyrighted works, and spread

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7. Digital Entertainment Group, "DEG Year-End 2009 Home Entertainment Report," *http://www.degonline.org* (follow the "Data & Resources" hyperlink) (last visited July 6, 2010).

8. Recording Industry Association of America, "2009 Year-End Shipment Statistics," *http://76.74.24.142/A200B8A7-6BBF-EF15-3038-582014919F78.pdf* (last visited July 6, 2010). That figure does not include more than $2 billion in sales of recorded music in digital formats.

9. U.S. Census Bureau, U.S. Dep't of Commerce, Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2009, at tab 2009, *http://www.census.gov/retail/mrts/www/data/excel/mrtssales92-present.xls* (last visited July 6, 2010).

10. Press Release, NPD Group, Inc., 2009 U.S. Video Game Industry and PC Game Software Retail Sales Reach $20.2 Billion (Jan. 14, 2010), http://www.npd.com/press/releases/press_100114.html.

access to cultural works to persons with lower incomes. Video rental – a commercial activity made possible by the first sale doctrine[11] – achieved $9.5 billion in revenues in 2008.[12] According to the Book Industry Study Group, the used book market segment in 2004 constituted $2.2 billion in overall sales, with some $1.6 billion in sales of used textbooks.[13] *Amicus* GameStop, believed to be the largest domestic seller of used video games, reported

11. *See infra at* 22-23.

12. U.S. Census Bureau, U.S. Dep't of Commerce, Annual Services Report, Table 5.1. Rental and Leasing Services (NAICS 532) – Estimated Revenue for Employer Firms: 2000 Through 2008 (rel. Dec. 2009 - Jan. 2010), http://www2.census.gov/services/sas/data/53/2008_NAICS53.pdf. In 2009, that number dropped to $6.5 billion, largely because of the rapid closing of major chains such as Blockbuster and Movie Gallery. *See* Digital Entertainment Group, Industry Data, "DEG Year-End 2009 Home Entertainment Report," *http://www.degonline.org*; Ben Fritz, "DVD rental revenue falls, delivering another blow to home entertainment business (Apr. 15, 2010)," *http://latimesblogs.latimes.com/entertainmentnewsbuzz/2010/04/dvd-rental-revenue-falls-delivering-another-blow-to-home-entertainment-business.html*. Under Section 109(b)(1), copyright owners retain an exclusive right with respect to rental of phonorecords and certain computer software.

13. Edward Wyatt, "Internet Grows as Factor in Used Book Business," The New York Times, Sept. 29, 2005, http://query.nytimes.com/gst/fullpage.html?res=9D05E2DA1230F93AA1575AC0A9639C8B63 (citing Book Industry Study Group, Inc., *Used-Book Sales: A Study of the Behavior, Structure, Size and Growth of the U.S. Used-Book Market* (Sept. 2005)).

nearly $2.4 billion in revenue in 2009 from sales of used games.[14]

Under *Omega*, any copyright owner could disrupt these currently-lawful aftermarkets by moving production overseas. Eliminating first sale privileges for imports reduces the value proposition from the purchase of copyrighted works. Consumers know that the books, CDs, DVDs, and video games they purchase can be traded, given away, or sold. Many younger or less affluent consumers resell or trade in their used copies to fuel purchases of other copyrighted copies. Thus, the loss of first sale resale rights likely will reduce purchasing in primary market sectors, both by reducing the initial incentive to purchase, and by denying consumers the proceeds from sales of used goods.

2. The Value of Retail and Sales of Imported Goods in the United States

Total retail trade in the United States in 2007 exceeded $3.9 trillion. Retailers employed 15.6 million people, and paid nearly $365 billion to employees in the retail sector.[15] Setting aside retail relating to motor

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14. GameStop, Inc., Annual Report (Form 10-K), at F-30 (Mar. 30, 2010). The total revenue of stores that sell used goods in the United States is estimated as $11.6 billion. U.S. Census Bureau, U.S. Dep't of Commerce, Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2009, at tab "2009", *http://www.census.gov/retail/mrts/www/data/excel/mrtssales92-present.xls* (last visited July 6, 2010).

15. U.S. Census Bureau, U.S. Dep't of Commerce, 2007 Economic Census, Selected Statistics by Economic Sector: 2007, (Cont'd)

vehicles, retail sales contributed approximately $2.6 trillion in 2007, and more than 12.9 million jobs, to the American economy.[16]

In 2009, businesses in the United States imported $1.6 trillion in foreign-made goods.[17] Approximately $497 billion of those imports were consumer goods offered for sale by retailers.[18] Prior to 2009, the value of imported goods for consumption in the United States had steadily increased from more than $1.2 trillion in 2000 to more than $2.09 trillion in 2008.[19] Thus, imported goods,

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(Cont'd)

http://factfinder.census.gov/servlet/SAFFEconFacts?_event=&geo_id=01000US&_geoContext=01000US&_street=&_county=&_cityTown=&_state=&_zip=&_lang=en&_sse=on&ActivegeoDiv=&_useEV=&pctxt=bg&pgsl=010&_submenuId=business_2&ds_name=&_ci_nbr=&qr_name=&reg=null%8Anull&_keyword=&_industry=44-45 (last visited July 6, 2010).

16. Even the automotive sector could be affected by the *Omega* decision. Every modern automobile runs on software that controls functions from engine timing to dashboard lighting. While Congress exempted automobile software from its restrictions on software *rental* in 17 U.S.C. § 109(b)(1)(B)(i), the *Omega* decision read literally would allow any imported automotive software developer to prevent used car *sales*.

17. U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Dep't of Commerce, U.S. International Trade in Goods and Services (FT900) Exh 5s – Exports, Imports, and Trade Balance of Goods (Apr. 2010), http://www.census.gov/foreign-trade/Press-Release/current_press_release/exh5s.pdf.

18. *See* data available from U.S. International Trade Commission Interactive Tariff and Trade Dataweb, *http://dataweb.usitc.gov/scripts/user_set.asp*.

19. *Id.*

including consumer goods sold at retail, constitute a huge segment of the domestic economy.

3. Goods Protected by Copyright Include a Broad Spectrum of Ordinary Consumable Goods.

While copies of copyrighted books, videos, games, and music comprise only a subset of sales of imported goods, copyright protection adheres to more than these obvious types of works. The U.S. Copyright Office routinely grants copyright registrations for packaging, logos, labels, and product inserts for myriad everyday products from floor cleaners and health and beauty aids to breakfast cereals. Given the low threshold for copyright protection, elements of any consumer product offered at retail could be subject to copyright protection. Consequently, claims of copyright infringement potentially can be asserted with respect to virtually every item in retail stores.

These fears are not merely theoretical. Copyright owners have sought to exploit such "thin" copyrights as a means to stop otherwise lawful parallel importation. In *Quality King*, the plaintiff used a copyright on a label of hair care products to attack discount-priced competition from lawfully-made re-imported products. Other product manufacturers similarly have registered copyrights covering disposable elements of functional items as a means to thwart low-priced competition from sales of authentic parallel-imported goods. *See, e.g.*, *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996) (packaging for reusable diapers); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38

F.3d 477 (9th Cir. 1994) (box for perfume); *Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988) (labels for beauty supplies).[20] In *Omega*, the copyrighted work pertains not to the design of the watch itself but, rather, to a minuscule logo engraved on the back of the watch.

The *Omega* decision already, regrettably, has given new life to such attempts to stifle lawful importation based on ancillary, even trivial, copyright claims. Thus, this Court's decision has the potential to affect hundreds of billions of dollars annually in commerce.

B. The Importance of the First Sale Doctrine, and the Threat Posed by *Omega*, to Markets for Authentic Imported Goods

The *amici* and their members typically offer thousands of products (known as stock keeping units or "SKUs") at any given time. Retailers cannot reasonably know the full provenance of each of the thousands of lawfully-produced goods they sell. Goods may be bought and resold several times before reaching retail shelves. Commonly, retailers acquire products not directly from the manufacturers, but through exporters, importers, and trading companies who, in turn, also may not deal directly with the manufacturers. Often these sources find genuine goods abroad for lower prices, and

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20. *See also, Cosmair v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 344, 1985 WL 2209 (S.D. Fla. 1988) (package label for Ralph Lauren cosmetics and fragrances); *Neutrogena Corp. v. Sec. of Treasury*, 7 U.S.P.Q. 2d 1900, 1988 WL 166236 (D.S.C. 1988) (packaging for cosmetic products).

arbitrage them to discount retailers in the United States. As a result, consumers can buy the same quality goods at lower prices.

As an example, *amicus* Quality King distributes products to the wholesale and retail trade. It purchases product both domestically and in foreign markets for distribution to U.S. customers. To provide its customers with the lowest available prices, Quality King sources products in both domestic and foreign markets. Quality King often sells these goods to consumers at discount prices in competition with manufacturers or "authorized" distributors that would prefer to price discriminate and charge higher prices by separating the U.S. market from foreign markets and charging U.S. consumers more than foreign consumers simply because U.S. consumers can afford to pay more. Those were the facts of *Quality King* – the case which *amicus* Quality King brought before this Court to vindicate its right to sell, under the first sale doctrine, lawfully-produced goods it had purchased abroad and imported for resale.

Retailers rely on the first sale doctrine for relief from unknown and unknowable infringement risks that jeopardize their businesses. This Court, in the analogous context of patent exhaustion, has acknowledged how the uncertainty of infringement liability threatens free commerce, and how the exhaustion doctrine plays a vital role in securing commerce and personal property rights:

> one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place.

> *. . . The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.*

Keeler v. Standard Folding Bed Co., 157 U.S. 659, 666-667 (1895) (emphasis added). That "inconvenience and annoyance" is no different with respect to goods protected by copyright than those protected by patents.

Moreover, as Justice Black observed nearly 50 years ago, businesses need bright line rules to avoid the "disastrous or even lethal consequences" of infringement suits:

> businessmen are certainly entitled to know when they are committing an infringement. . . . But to what avail these congressional precautions if this Court, by its opinions, would subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them. . . .[21]

Omega brings these risks into sharp focus for the retail community. Every retailer and consumer would face potential copyright infringement liability for transferring possession or title to *any* foreign-manufactured goods – even genuine goods manufactured and authorized for unrestricted sale by the U.S. copyright owner. The threat of liability under

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21. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 358 (1961) (Black, J., concurring).

the Copyright Act, including the potential for injunctive relief, seizure and loss of inventory, statutory damages (ranging from $750 to $150,000 per work),[22] and payment of both plaintiff's and its own litigation costs and attorney fees, could prove devastating to small businesses, and highly disruptive to commerce generally.[23] The threat to a small retailer far outweighs the potential profit to be gained by offering relatively small discounts on imported goods.[24] Thus, the potential infringement liability inevitably would deter otherwise lawful importation of authentic products, and compel rational, risk-averse businesses to forego opportunities to offer discounted goods to their customers.

The value of parallel imported goods sold annually in the United States represents a multibillion-dollar

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22. 17 U.S.C. § 504(c).

23. *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d at 482 ("the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer"); *Am. Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978) ("even an unwitting purchaser who buys a copy in the secondary market can be held liable for infringement if the copy was not the subject of a first sale by the copyright holder").

24. Where parallel import cases have been litigated and lost, the impact on defendants is as unpredictable as it is significant. *See, e.g.*, *Tesco falls as Levi's court case is lost*, BRAND REPUBLIC, Nov. 20, 2001, http://www.brandrepublic.com/news/15134/tesco-falls-levis-court-case-lost (reporting the 1.1% fall in Tesco shares immediately following a loss in a parallel import case against Levi's in the European Court of Justice, Case T-415/99 *Levi Strauss v. Tesco Stores*).

benefit to American consumers.[25] *Omega* would certainly choke off such parallel importations, but in fact it goes much further. It applies to *any* copies or phonorecords of copyrighted works, and *any* goods incorporating a copy of a copyrighted work, if manufactured outside the United States. On its face, the Ninth Circuit decision negates the first sale doctrine for all items made outside the United States, *even if manufactured, imported, and sold in the United States by or with authority of the copyright owner.* Thus, the Ninth Circuit's decision (in addition to disrupting entire secondary market segments) would provide a lawful mechanism for manufacturers to discriminate in price between geographic markets at the expense of the American consumer.

In past cases involving importation of goods covered by copyright, the Ninth Circuit acknowledged that an overbroad interpretation of Section 602(a) would impose undue burdens and financial risks against lawful commerce:

> [E]very little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American

25. For example, a 2008 white paper prepared for an association opposed to parallel importation estimated $58 billion annually in parallel importation activity. KPMG LLP, KPMG Gray Market Study Update, "Effective Channel Management is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line," at 30, *http://www.agmaglobal.org/press_events/press_docs/KPMG%20AGMAGrayMarketStudyWebFinal071008.pdf* (last visited July 7, 2010).

> distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back.

Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp., 97 F.3d 377, 380 (9th Cir. 1996). Similarly, the Ninth Circuit decision in *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), holding that "lawfully made under this title" requires manufacture in the United States, received almost-immediate criticism, even from the Ninth Circuit itself. As that court wrote just three years later, *BMG Music* literally would give "foreign manufactured goods . . . greater copyright protection than goods manufactured in the United States" – a result it characterized as "absurd and unintended." *Parfums Givenchy, Inc.*, 38 F.3d at 482 n.8. Two years later, the court acknowledged that *BMG Music* was the target of "widespread criticism" from courts and legal scholars. *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d at 1149-50.

In the case leading to the Supreme Court decision in *Quality King*, the Ninth Circuit again conceded that legal commentators considered *BMG Music* a "flawed" decision. *Lanza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1115 (9th Cir. 1996), *rev'd on other grounds*, 523 U.S. 135 (1998). And, presaging the need to resolve these issues, the Ninth Circuit reflected in *Disenos*: "The impracticality of the burden [plaintiff] would have us impose on the retailers gives us pause about whether its reading of *Parfums Givenchy* and *BMG Music* is correct." 97 F.3d at 380.

Quality King resolved these questions in favor of exhaustion. But in *Omega*, the Ninth Circuit reached the opposite conclusion. Because it believed its prior decisions were not "clearly irreconcilable" with this Court's decision in *Quality King*, the Ninth Circuit effectively narrowed *Quality King* to its facts. *Omega*, 541 F.3d at 987-990. As a result, the decision creates substantial uncertainty among retailers and distributors, who must now weigh the consequences of selling any imported product that could have a copyrightable label, logo, or product insert – *i.e.*, virtually every product in their stores.

C. Narrowing the First Sale Doctrine Harms Business and Consumer Welfare.

Omega also ignores how, as a matter of policy, a domestic manufacturing requirement burdens commerce and consumer welfare. As noted above, the "made in the U.S.A." rule absurdly applies to all copies of copyrighted works manufactured outside the United States – regardless if the copyright owner manufactured, imported into the United States, and sold the goods to a reseller or ultimate consumer.

Suppose a copyright owner duplicates its DVD movie discs in Mexico, and imports and sells them in the United States. Despite that the lawful copy was imported and sold by the copyright owner itself, under the Ninth Circuit interpretation, the first sale doctrine could not apply simply because the copy was not "lawfully made" *in* the United States. Consequently:

- Video stores that today purchase multiple copies of a movie during its initial release would no

longer be able to engage in the common practice of reselling most of the copies as "previously viewed" disks for a much lower price.

- An individual consumer could watch the movie, but could not lend it to a friend, resell it online, or give it away as a present.

Thus, *Omega* would impose on businesses and consumers the very restraints against free disposition of personal property that the first sale doctrine was intended to prohibit.[26]

If courts interpret Section 602 so as to prevent importation of goods lawfully made by the copyright owner, the retail industry can have little confidence to sell nonpiratical goods acquired from an independent exporter or importer. Indeed, despite *Quality King*, retailers even would be at risk to re-import goods produced in the United States given the practical difficulties in assuring the lineage of imported goods. Where, as here, the copyright owner places no copyright notice on the goods, retailers have no reasonable way

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26. To ameliorate the anomalies created by its rule, the Ninth Circuit proffered an exception permitting exhaustion in cases of authorized importations. 541 F.3d at 989-990. Yet, this exception also finds no basis in the statutory language or policy. Section 109(a) refers to lawful manufacture, not authorized importation. Had Congress found such an exception necessary, it explicitly would have provided it. Moreover, an "authorized importation" exception runs contrary to the express statutory affirmation that the entitlements of Section 109(a) apply "without the authority of the copyright owner" – hence, even over the copyright owner's objection.

to ascertain whether goods are protected by copyright. And the risks are all the more egregious where, as in *Omega*, the copyrighted work is ancillary to the goods and irrelevant to the reasons for the purchase.

The harm to consumers is equally obvious. Where retailer competition is subjugated to copyright owner price controls, the results are fewer imported goods offered at retail, in fewer retail outlets, and artificially inflated prices to consumers. And *Omega* likewise stifles the burgeoning aftermarket sectors for used books, CDs, DVDs, video games, works of fine art, and other works subject to copyright protection.

Narrowing the first sale doctrine can lead to unforeseen consequences detrimental to commerce and culture. A past example illustrates these potential chilling effects. Amidst the controversy leading to this Court's decision in *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), motion picture producers sought unsuccessfully to amend Section 109 to prevent commercial rental of videotapes by independent rental businesses.[27] Because the motion picture industry failed to narrow the first sale doctrine, entrepreneurs created an entire new industry segment for video rental. As a result, millions of consumers have been able to enjoy more movies than they could otherwise afford to purchase. Over the last decade alone,

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27. H.R. 5707, 97th Cong. (1982). *See* Peter S. Menell, *The Property Rights Movement's Embrace of Intellectual Property: True Love or Doomed Relationship?*, Paper 36 (2007), eScholarship Repository, Berkeley Center for Law and Technology, *http://repositories.cdlib.org/bclt/lts/36*.

the video rental market sector in the United States has grown from some $14 billion annually to more than $20 billion annually.[28]

The cumulative impact of price discrimination to consumers and the economy is enormous. Unless the *Omega* decision is reversed, the drain on consumers and the American economy could reach billions of dollars in higher prices for goods that could have been purchased more cheaply through parallel importation. That impact will become more pervasive, and more costly, given the rapid growth of commerce in new parallel imports and used imported goods via online retail and resale. According to figures in the U.S. Department of Commerce 2009 Statistical Abstract, online retail sales in 2007 totaled approximately $126.7 billion, and constituted approximately 3.2 % of all retail sales in the United States.[29] By 2012, the Abstract projects online retail sales to reach more than $334.7 billion.[30] The *amici* thus are concerned the erroneous holding of the Ninth Circuit could short-circuit the growth of online commerce, disrupting the myriad daily online transactions of corporate retailers and individual online sellers.

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28. Digital Entertainment Group, Industry Data, "DEG Year-End 2009 Home Entertainment Report," *http://www.degonline.org* (last visited July 6, 2010).

29. U.S. Census Bureau, U.S. Dep't of Commerce 2009 Statistical Abstract http://www.census.gov/compendia/statab/tables/09s1013.pdf (last visited July 7, 2010).

30. *Id.* Statistics from eBay, Inc. further illustrate the growth, velocity and significance of online commerce. *See* eBay, Inc., *eBay Marketplaces Fast Facts at a Glance*, June 30, 2009, http://files.shareholder.com/downloads/EBAYPRESS/661446397x0x223370/C99E1580-C708-46FA-A1B5-3FB94A64ABB2/eBayMarketplacesFastFacts.pdf.

II. The Ninth Circuit's Injection Of A Domestic Manufacturing Requirement Into Section 109 Is Erroneous As A Matter Of Law.

This case concerns the proper interpretation of five words – "lawfully made under this title" – in Section 109 of the Copyright Act.[31] The phrase, in its most natural reading, requires nothing more than that the copy be lawfully made under the authority granted to the copyright owner, or to the maker of the copy, by title 17. That was the conclusion reached in the thoughtful statutory analysis in *Pearson Educ. Inc. v. Liu*:

> Stated differently, § 109(a) teaches that for first-sale purposes, the lawfulness of a particular copy or phonorecord should be judged by U.S. copyright law no matter where the copy or phonorecord was manufactured. In the normal run of cases, this condition will be satisfied if the copy was manufactured by the U.S. rightsholder, *see* § 106(1); if the U.S. rightsholder authorized the copy to be manufactured; or if the manufacturer's

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31. Section 109, entitled "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord," provides in pertinent part:

> (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

> activities would be privileged under U.S. concepts of fair use, *see* § 107.

Id., 656 F. Supp. 2d 407, 412 (S.D.N.Y. 2009) (citations omitted).

In *Omega*, the Ninth Circuit read into Section 109 an additional requirement of domestic production. That interpolation of extra-statutory conditions into the first sale doctrine is clearly erroneous. First, it is contrary to the plain language of the statute. Congress could have explicitly limited the first sale statute to the owner of a copy lawfully made under this title "in the United States," but did not.[32]

Second, that Congress elsewhere in title 17 did specify production in the United States suggests that its choice here was deliberate. Congress enacted a domestic production limitation in the Audio Home Recording Act of 1992, which defines the term "manufacture" to mean "to produce or assemble a product in the United States." 17 U.S.C. § 1001(8).

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32. This interpretation also comports with international copyright-related treaty provisions, which permit exhaustion of the right to distribute copies of copyrighted works "after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the owner." WIPO Copyright Treaty, art. 6(2) (1996), http://www.wipo.int/export/sites/www/treaties/en/ip/wct/pdf/trtdocs_wo033.pdf; *see also* WIPO Performances and Phonograms Treaty, art. 12(2) (1996), http://www.wipo.int/export/sites/www/treaties/en/ip/wppt/pdf/trtdocs_wo034.pdf. Thus, under the WIPO treaty, a sale or transfer authorized by the copyright owner triggers exhaustion, without limitation as to the place of manufacture.

Section 601(a) prohibited importation or public distribution of certain copies of works protected under title 17 unless "manufactured in the United States or Canada." 17 U.S.C. § 601(a). In the PRO-IP Act of 2008, Congress singled out manufacture in the United States by requiring the Government Accountability Office to study how to improve protection for intellectual property of "domestic manufacturers in the United States."[33] Thus, Congress knew how, and under what circumstances, to limit obligations or rights relating to copyright based on domestic manufacture, but did not do so in Section 109(a).

Third, interpreting "lawfully made under this title" to mean only domestic production leads to anomalous results in other sections of title 17 employing that phrase. In Section 109(c), a domestic production requirement would impose infringement liability on any American museum that displays foreign art works. Similarly, as used in Section 109(e), no arcade, bar, or diner could offer coin-operated foreign-made video games. Educators could be liable for infringement, rather than exempt under Section 110(1), for showing foreign films or television programs in classrooms. Copyright owners of phonorecords manufactured outside the United States would not be entitled to royalty payments under the Audio Home Recording Act of 1992, even if those copyright owners had authorized distribution of the recordings in the United States. *See* §§ 1001(7), 1006(a)(1)(B). These anomalies suggest that

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33. Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 501(b)(2), 122 Stat. 4256, 4277-78 (2008).

the phrase "lawfully made under this title" be given its natural reading, without specifying a place of manufacture.

Similarly, Section 106(3), which governs whether a copy has been "lawfully made," does not condition the exclusive right of reproduction on the place of manufacture.[34] In *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), in which the Court first articulated the first sale doctrine, the Court observed that granting an exclusive reproduction right was the central purpose of copyright law, and the right to control sales of copies existed to give effect to the reproduction right:

> [O]ne who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, ...
>
> In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the book shall be sold at retail by future purchasers, with whom there is no

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34. Section 106 provides, in pertinent part:

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords; . . . .

> privity of contract. This conclusion is reached in view of the language of the statute, read in the light of its main purpose to secure the right of multiplying copies of the work.

Id. at 350-351. Regardless of the place of manufacture, where the reproduction right has been exercised by or under authority of the copyright owner, the copyright owner's exclusive right has been protected.

Thus, under Sections 106(3) and 109(a), the place of manufacture does not matter. A copy necessarily is "lawfully made under this title" if, as here, it is made by, or under the authorization of, the U.S. copyright owner.

The Ninth Circuit ignored these principles and instead restricted *Quality King* to its facts. The Panel viewed *Quality King* as affirming the scope of the first sale statute only in context of a "round trip" importation of goods first manufactured in the United States. *Omega*, 541 F.3d at 987. However, in even its most narrow recitation of the question presented, this Court indicated its intention in *Quality King* to articulate a principle of law, not just a determination on the facts: "More narrowly, the question is whether the 'first sale' doctrine endorsed in §109(a) is applicable to imported copies." *Quality King*, 523 U.S. at 138. The Court therefore characterized its own decision as resolving a general legal principle: that the first sale doctrine does apply to imported lawfully-made copies of a copyrighted work.

Similarly, the appellate court attributed too great weight to the brief concurrence in *Quality King*, agreeing with the outcome based on the "round-trip" facts of the case. With utmost respect, we note that the concurrence was neither incorporated into the opinion, nor was joined by any other Justice, so should not have been presumed to represent the views of an otherwise unanimous Court. That is particularly true where the Court gave its own articulation of the question decided in *Quality King* a broader scope.

The *Omega* court's concern that a plain meaning interpretation would result in extraterritorial application of U.S. copyright law also has no basis. Contrary to the Panel's view, copyright law would not be applied extraterritorially in this case, which calls upon the Court to determine the rights of a domestic copyright owner vis-à-vis domestic importers, resellers, and consumers. The pertinent questions under Section 109(a) are, first, whether the entity that made the copies possessed the right to reproduce under Section 106(3) (such that copy is "lawfully made under this title"); and, second, whether the first sales of the copies by that entity were authorized. These questions do not implicate infringement of U.S. copyright laws by acts occurring solely overseas. Rather, they concern whether the owner of the U.S. copyright authorized the making of the copies without any reservation of rights under title 17. Because the owner of the U.S. copyright made the watches, and did not limit or reserve any of its exclusive rights under Section 106 of the Copyright Act, the copies should be deemed "lawfully made" under Section 109 and the first sale doctrine should apply.

The facts here contrast with the extraterritorial concerns discussed by this Court in *Quality King*. In *dicta*, the Court considered a scenario in which a domestic copyright owner separately assigned book publication rights to British and U.S. publishers under their countries' respective laws. 523 U.S. at 148. Under those facts, the Court posited that the first sale of a book made under British copyright law would not exhaust the importation right in the United States.[35] Here, however, the domestic copyright owner itself produced the watches with the copyrighted logo. Because that manufacture was lawful under the

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35. *Cf. Boesch v. Graff*, 133 U. S. 697 (1890) (importation of foreign lamps lawfully made in Germany infringed rights of United States patent assignee). Several courts have misread this passage in *Quality King* as if confirming the importance of the *place* of manufacture rather than the *right* to manufacture under title 17. *See Pearson Educ. Inc. v. Arora*, 2010 WL 2300535 at *3 (S.D.N.Y. 2010) ("[t]his Court has—albeit unenthusiastically—followed the Supreme Court's suggestion that the 'first sale' rule does not apply to works copyrighted in the United States, manufactured abroad, and subsequently imported and sold in the United States"); *Pearson Educ. Inc. v. Kumar*, 2010 WL 1609024 at *6 (S.D.N.Y. 2010) ("the first sale doctrine does not apply to copies of a copyrighted work manufactured abroad"); *John Wiley & Sons, Inc. v. Kirtsaeng*, 2009 WL 3364037 at *9 (S.D.N.Y. 2009) ("The Court indicated that only books manufactured and published in the United States are 'lawfully made' under U.S. law"); *Pearson Educ. Inc. v. Liu*, 656 F. Supp. 2d at 416 ("[t]his Court therefore holds, *dubitante*, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad"). To the contrary, the Court's hypothetical assumes that the British publisher had no rights to make in the United States and, therefore, that the books produced by that publisher could not be lawfully made under title 17. 523 U.S. at 148.

Copyright Act, these lawfully-made copies also could lawfully be imported.[36]

In sum, the Ninth Circuit decision finds no support in the language of Section 109(a) or the Copyright Act, and runs contrary to the principles enunciated by this Court in *Quality King*. The Court should re-affirm that the first sale doctrine under copyright law does not apply only to domestically manufactured copies and phonorecords, and reverse the judgment of the court of appeals.

III. Sound Copyright Policy Supports The Application Of The First Sale Doctrine To Goods Lawfully Made Abroad.

Amici and their members collectively sell annually hundreds of millions of copyrighted books, compact discs, DVDs, and video games. For copies of copyrighted works manufactured and sold at retail in the United States, it is a relatively simple matter to ensure that the copies offered for sale are authentic and not infringing. Less obvious is where the goods were manufactured, and how they were first acquired and resold (often more than once) before reaching the retailer's shelves or webpages.

But thousands of other products sold by the *amici* members include material ancillary to the purchased

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36. This does not address whether a copyright owner that manufactures a copyrighted work overseas may contractually restrict its sale in the United States. *See Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. at 2122 n.7.

goods, such as product labels or package inserts. As is the case with the watches at issue here, the goods themselves are not purchased for their copyrighted content, and the copyrighted elements of the label packaging are not intrinsically identifiable as copies of copyrighted works. Nor are they relevant to the consumer's purchasing decision. The consumer's interest is in purchasing the goods, not whether the writing or a picture on its disposable packaging qualifies as an expressive copyrightable work.

The concern of the *amici* is not that these registrations are issued, but rather how these registrations can be and, as in this case, have been improperly leveraged. Copyright is being used in many cases to achieve commercial aims unrelated to any intrinsic value of copyrighted expression that purportedly is the object of protection.[37] It is simply too easy to obtain a copyright registration on the content of a product label or package design; and the aspect that is copyrightable is usually far removed from anything that motivates the consumer's purchasing decision.

Omega sought to leverage the power of copyright law to prevent otherwise lawful parallel importation and to price discriminate between foreign and domestic

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37. *See* Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 Cardozo L. Rev. 55, 140-146 (2001). As the Court observed in *Quality King*, the real motivation is to maintain higher domestic product prices, not to protect the copyrighted work itself: "Lanza is primarily interested in protecting the integrity of its method of marketing the products to which the labels are affixed." 523 U.S. at 140.

retail sales — not to obtain a return on the copyrighted work itself. Omega admits it engraved the globe symbol on its watches to serve a policing function against parallel importation, not for ornamentation or aesthetic expression. Thus, Omega is not using the globe logo for any purpose protected by copyright law. In this context the logo is palpably no different than a non-copyrightable, functional forensic tool. Copyright law should not be strained to protect high pricing for brand merchandise, as an end run around the limits of trademark law defined by this Court in *K Mart v. Cartier.*

As explained above, the first sale doctrine plays a fundamental role to secure the rights to sell at retail in the United States, and to dispose of thereafter, lawfully-made goods legally acquired abroad. In today's global and online economy, it is impossible to overstate the potential disruptive impact on commerce if companies cannot import and sell goods lawfully made abroad consistent with U.S. copyright law, and consumers cannot transfer ownership of their property.

Moreover, a domestic manufacturing requirement creates perverse incentives for U.S. copyright owners to produce all copies of their copyrighted works outside the United States. The impact of such a holding could be particularly far-reaching in cases, such as this, where a copyrighted symbol, label, or package design can be applied to virtually any goods offered for sale in the United States. The language of Sections 109(a) and 602 demonstrate no clear Congressional intent to create incentives for manufacturers to move their plants across the border into Canada or Mexico, to a location that might only be a few miles outside the U.S. border, simply

to take advantage of the inapplicability of the first sale doctrine. And no copyright or public policy would be served by the potential losses of jobs and tax revenue, or the manifest disadvantages to consumer and commercial interests.

Applying the first sale doctrine only to domestically-produced goods also unfairly advantages foreign owners of U.S. copyrights over U.S. copyright holders. In *Parfums Givenchy*, the Ninth Circuit considered commentators' justifiable critiques of the "absurd and unintended" and "undesirable" results from *BMG Music*, which would have accorded first sale protection "only to copies legally made and sold in the United States." 38 F.3d at 482 n.8, *citing BMG Music*, 952 F.2d at 319. The Ninth Circuit concluded that denying first sale rights to foreign made goods would contravene both the language of the statute and public policy:

> This would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States. We agree that such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation.

Id. Yet, the Ninth Circuit now has taken a step beyond that "untenable" result. Under *Omega*, any purchaser of a foreign-produced copyrighted work – even if made

with the express authority of the copyright owner – could lose the right to dispose of the property in any manner by resale, gift, or lending, without being branded an infringer.

No copyright policy is served by preventing importation and resale of goods that have been lawfully produced by or with the copyright owner's authorization. While a copyright owner is entitled to a payment for its creative expression, it receives that royalty incentive from the first sale of a copy of its copyrighted work. Omega, as holder of the U.S. copyright, made the goods and authorized the sale to the first purchaser. Under Section 109 it exhausted fully its copyright interest in further disposition of those goods.

Finally, in that regard there can be no contention that parallel importation deprived Omega of the full reward for its copyright. The copy of the copyrighted work at issue in this case is a half-centimeter engraving on the underside of the watch, visible only when one is not wearing it. Such is hardly the stuff of which "bling" is made. The $700 surcharge by Omega over the Costco price represents the social cost of price discrimination, not a royalty for the intrinsic value of a copyright. No copyright policy is served by leveraging a copyright solely to maintain price discrimination on non-copyrightable goods.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

SETH D. GREENSTEIN
CONSTANTINE CANNON LLP
1301 K Street N.W.,
Suite 1050 East
Washington, D.C. 20005
(202) 204-3500
sgreenstein@constantinecannon.com

Counsel for Amici Curiae

AMICUS CURIAE BRIEF

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IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA S.A.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF SOFTWARE & INFORMATION INDUSTRY ASSOCIATION (SIIA) AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

SCOTT E. BAIN
Counsel of Record
KEITH KUPFERSCHMID
MARK BOHANNON
SOFTWARE & INFORMATION INDUSTRY ASSOCIATION
1090 VERMONT AV. NW
Suite 600
Washington, D.C. 20005
(202) 289-7442
sbain@siia.net
Counsel for Amicus Curiae SIIA

September 7, 2010

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BRIEF OF SOFTWARE & INFORMATION INDUSTRY ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

STATEMENT OF INTEREST OF THE AMICUS CURIAE[1]

Amicus, the Software & Information Industry Association ("SIIA"), is the principal U.S. trade association of the software and digital content industries. SIIA is the nation's oldest and largest association representing software and content companies.[2] Its members range from start-up firms to some of the largest and most recognizable corporations in the world. SIIA member companies are leading providers of, among other things:

- software publishing, graphics, and photo editing tools
- corporate database and data processing software

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[1] Pursuant to this Court's Rule 37.6, amicus affirms that no counsel for a party authored this brief in whole or in part and that no person other than amicus and its counsel made a monetary contribution to its preparation or submission. The parties' letters consenting to the filing of this brief have been filed with the Clerk's office.

[2] The Software Publishers Association ("SPA") was founded in 1984. The increasing convergence of the software and information services industries led to a 1999 merger between SPA and the Information Industry Association ("IIA"), creating the SIIA.

- financial trading and investing services, news, and commodities exchanges
- online legal information and legal research tools
- textbooks and research periodicals
- protection against software viruses and other threats
- education software and online education services
- open source software
- and many other products and services in the digital content industries.

A list of the more than 500 SIIA member companies may be found at http://joomlatest.siia.net/index.php?option=com_wrapper&view=wrapper&Itemid=43.

SIIA has been an industry leader in addressing intellectual property issues in the software and information industries for many years. It has long been an active participant in legislative debate and revisions relating to copyright. Moreover, SIIA's members have extensive, real-world experience as: (1) both "buyers" and "sellers" in various kinds of market transactions that may be affected by this case, (2) licensors and licensees in transactions that, as SIIA urges, are *not* affected by the first sale doctrine, such as mass market software licensing, and (3) copyright owners attempting to protect their rights and sustain their business in an increasingly challenging global electronic marketplace, where copies are effortlessly made and distributed anywhere in an instant.

SIIA's interest in this case is to ensure the proper application of sections 109 and 602 of the Copyright Act, both of which have been interpreted uniformly by courts for many years. Multi-billion dollar industries have long relied upon these consistent interpretations, and the Ninth Circuit's holding in this case is consistent with these settled expectations. *See* Omega Br. at 12, 44 (explaining that the Ninth Circuit's analysis effectively has been settled law for a quarter century). Significant segments of the content industries rely upon section 602 to make and sell "country-specific" or "region-specific" versions of their products. For example, a textbook publisher may find it impractical and uneconomical to provide its "standard" product in third world countries, but can establish a plant overseas to produce a slightly modified, lower-priced version to sell there.[3] It is well understood that section 602 maintains the incentive for the copyright owner to engage in such practices, which are beneficial to the copyright owner itself as well as to domestic and foreign consumers.

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[3] Sometimes the product may be exactly the same as the domestic version. Sometimes it may have differences, such as lower quality paper, or black and white illustrations instead of color, or different typesetting.

SUMMARY OF THE ARGUMENT

Relying upon the plain statutory text, surrounding provisions of the Copyright Act, and legislative history that spoke directly to the issue in this case, the court of appeals correctly concluded that the section 109 first sale doctrine did not apply to foreign-made copies imported by Costco. A copy "lawfully made under this title" means *made under the United States Copyright Act*, and it is well established that the Copyright Act only applies to acts within or subject to the jurisdiction of the United States. Moreover, if there were any ambiguity to the statute, its legislative history plainly resolves it. Contemporaneous statements by those drafting and debating section 602(a) show that it was meant for the very purpose of preventing parallel imports without the authorization of the copyright owner — the very conduct at issue in this case.

The appellate court's conclusion also is the only one fully consistent with this Court's analysis in *Quality King*, and subsequent holdings by the dozens of other courts to encounter the issue. Reversing the court's decision would upset more than a quarter century of settled law and settled expectations of the U.S. copyright industries and their customers.

Costco's position also requires the Court to encroach upon the policy role that is the province for Congress alone. The arguments of Costco and its *amici* rely upon conjecture about what may happen in various industries should the Court affirm the case, and policy concerns regarding the extent to

which copyright owners should be entitled to exercise control over their works. The participants on both sides of this case surely advance competing views over whether so-called "market segmentation" is good or bad for consumers, and whether it is generally a socially desirable or undesirable exercise of a copyright owner's rights. But as Omega and the United States have explained, such policy concerns: (1) already were taken into account by Congress when it passed section 602(a); (2) have not actually come to pass in the quarter century since enactment of section 602(a); and (3) in any case would be the responsibility of Congress to consider again.

Finally, it is important to note that this case involves the *sale* of products bearing a copyrighted work, and not the *license* of copies as is the predominant practice in several significant copyright industries (including the mass market software industry). It is well established that section 109 does not apply to licensed copies, and unauthorized distributors of such copies can be sued for copyright infringement. *See* 17 U.S.C. § 109(a) (first sale doctrine available to the "owner" of a copy). Not surprisingly, some "reseller" industries desire a shift in the law, and some *amici* appear to advocate this case as a vehicle to do so. There are many important reasons beyond mere market segmentation, however, for some copyright owners to license rather than sell copies of certain products. This case should not affect the integrity of the thousands of existing software licenses and other licenses in place, the businesses built upon such licensing, and the critical enforcement regimes (copyright, not simply contract) needed to effectively protect them.

ARGUMENT

I. THE FIRST SALE DOCTRINE (SECTION 109) DOES NOT APPLY TO COPIES MADE IN FOREIGN JURISDICTIONS AND IMPORTED INTO THE UNITED STATES WITHOUT AUTHORIZATION

Straightforward principles of statutory interpretation dictate that section 109 does not apply to copies made in foreign jurisdictions, under the copyright laws of those jurisdictions rather than the U.S. Copyright Act, and imported into the United States in violation of section 602.

A. The Plain Language of Section 109, Section 602, And Surrounding Context In The Copyright Act Support Affirmance

Section 602(a) of the Copyright Act provides:

> [i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies under section 106, actionable under section 501.

17 U.S.C. § 602(a)(1). The exclusive right to distribute copies is, however, subject to limitations

by other provisions including the first sale doctrine. First established by this Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), the first sale doctrine is now codified in section 109. It states:

> [n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a) (emphasis added).

The meaning of the phrase "lawfully made under this title" is plain: the act of making the copy was governed by the U.S. Copyright Act – it occurred within the territorial reach of U.S. law and the U.S. Copyright Act is what made it lawful. If the making of the copy is not governed by the Copyright Act, the copy cannot be "made under this title," let alone "*lawfully* made under this title." *See Quality King Distributors, Inc. v. L'anza Research Intern., Inc.*, 523 U.S. 135, 142 (1998).

It is well established that a copyright owner's exclusive rights under Title 17, including the reproduction right (the right to make a copy) and distribution right, do not apply to activities outside the United States. *See United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260 (1908); 4 NIMMER ON

COPYRIGHT § 17.02, at 17-19 (2009) ("[C]opyright laws do not have any extraterritorial operation."); *cf. Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) (Holding that United States patent law is territorial, and "[f]oreign conduct is . . . the domain of foreign law."). International copyright treaties similarly treat the "lawfulness" of making a reproduction as the province of the nation in which it occurred. *See, e.g.,* Berne Convention for the Protection of Literary and Artistic Works, art. V (Sept. 28, 1979) ("Protection in the country of origin is governed by domestic law."). Thus, when a copy is made outside of the United States, it is neither permitted nor precluded by Title 17 ("this title"). The Copyright Act does not govern the conduct at all.[4]

Costco and its *amici* argue that "lawfully made under this title" means simply that the copy *would* have been lawful *if* U.S. copyright law applied. But if Congress had meant that, it knew exactly how to say it -- it did so in a different part of section 602. Section 602(b) prohibits importing piratical copies when the making of the copies "*would have* constituted an infringement of copyright *if* this title had been applicable." 17 U.S.C. § 602(b) (1997) (emphasis added). Congress' use in subsection (a) of the different phrase "under this title," must mean something different. *See, e.g., Russello v. United States*, 464 U.S. 16, 23 (1983) ("[W]here Congress includes particular language in one section of a

[4] This is particularly true where, as here, the copy was made abroad pursuant to an authorization that only permitted distribution abroad. Nothing about the making of that copy is "under" U.S. copyright law.

statute but omits it in another section of the same Act, it is generally presumed that Congress act[ed] intentionally and purposely. . . . We refrain from concluding here that the differing language in the two subsections has the same meaning in each." (citations omitted)). Thus, "under this title" cannot mean *if* U.S. law applied to the making of the copy. It means U.S. law *did* apply to the making of the copy.[5]

While the plain statutory language is dispositive, *see Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253-54 (1992), the surrounding context of section 602 and other portions of the Copyright Act further support the Ninth Circuit's interpretation. First, that interpretation appears to be necessary in order to avoid redundancy with the general distribution right under section 106(3). *See, e.g., Ratzlaf v. United States*, 510 U.S. 135, 140-41 (1994) (courts should avoid interpreting statutory terms "in any setting" as "surplusage" or "superfluous" to other terms in the same statute (citations omitted)); *Regions Hosp. v. Shalala*, 522 U.S. 448, 467 (1998) (a statute should be construed so that "no clause, sentence, or word shall be superfluous, void, or insignificant").

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[5] Section 104 of the Copyright Act is consistent, specifying when a U.S. copyright exists "under this title." 17 U.S.C. § 104. While section 104 grants U.S. copyright *status* to some foreign-published works (pursuant to treaty obligations), the exclusive *rights* that attach to copyright (including the right to make a copy) are specified and exercised *territorially*.

Section 106(3) already prohibits "distribut[ing] copies . . . to the public" in the United States without authorization. 17 U.S.C. § 106(3). This provision on its face would appear to cover the importing of piratical copies into the United States. This is confirmed by a passage in section 602. *See* 17 U.S.C. § 602(a) ("[i]mportation is an infringement of the exclusive right to distribute copies . . . under section 106."). To avoid nearly complete redundancy with section 106(3), the importation right under section 602(a) must properly be interpreted to apply not only to piratical copies, *but to certain authorized copies as well*. *See* 2 GOLDSTEIN ON COPYRIGHT § 7.5.2 (2007) at 7:130.1 ("Section 602(a)[(1)] encompasses both piratical and gray market goods."). Indeed, the Court already reached this conclusion in *Quality King*, 523 U.S. at 147. And as discussed below, this is consistent with the intent expressed by Congress in legislative history. There would be little reason for Congress to devote attention to a new section 602 if it only applied to piratical imports already covered by the traditional distribution right of section 106(3).

Moreover, Omega's interpretation is necessary to avoid internal redundancy within section 602 itself. Sections 602(a)(2) and 602(b) both provide remedies in the case of piratical goods that would appear to subsume § 602(a)(1) if that provision only covered piratical (unauthorized) copies. *See* Omega Br. at 24-27 (explaining redundancies). And limiting section 602 to piratical copies also would render moot the various exceptions within section 602, such as the "baggage exception" for travelers bringing back personal copies of a work. *See* 17 U.S.C. §

602(a)(3)(B). Such exceptions would be unnecessary, as the user simply could assert the first sale doctrine.

B. The Legislative History Of Section 602 Confirms That The First Sale Doctrine Is Not A Defense To Parallel Importation Of Copies Made Abroad For Distribution Exclusively Abroad

The legislative history of section 602 confirms that Congress enacted the statute to deal with the problem of parallel imports, not simply the importation of piratical works. *See, e.g.*, 4 William F. Patry, PATRY ON COPYRIGHT § 13:42 (2010) at 13-89 (Congress intended section 602 "to grant a U.S. distributor an exclusive right to distribute copies of the work in the United States."). The Copyright Office played a substantial role in the deliberations leading up to the adoption of section 602, like the rest of the 1976 Copyright Act. The Act was the culmination of various studies and reports conducted by the Office in the 1950's and 1960's. In those reports and elsewhere, the Office explained that a new section (to become 602) was intended to address foreign copies that were made with the authorization of the copyright owner but authorized only for distribution abroad, and "if sold in the United States would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States." House Comm. on the Judiciary, 88th Cong., 2d Sess., Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft 28, 32 (Comm. Print Sept. 1964).

The Register of Copyrights similarly stated on record that the new provision would apply, for example, where "the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." Staff of the House Comm. on the Judiciary, 89th Cong., 1st Sess., Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 149-50 (Comm. Print 1965). The Register further explained that, in addition to prohibiting import of "unauthorized editions" or "piratical" copies, the new section also prohibited "importation for infringing distribution" of non-piratical copies, or "copies . . . lawfully made but [for which] distribution in the United States would violate the exclusive rights of the U.S. copyright owner." *Id.*

The House Report similarly confirms that section 602 is directed to parallel imports. *See* H.R. Rep. No. 94-1476, at 169 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5785 ("Section 602 . . . deals with two separate situations: importation of 'piratical' articles (that is, copies . . . made without any authorization of the copyright owner), and unauthorized importation of copies . . . that were lawfully made.")

Congress also recognized that, in theory, copyright owners may have a breach of contract claim when a copy was imported without authorization. But Congress realized the impracticality and ineffectiveness of contract law to protect against parallel imports. *See* Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess.,

Copyright Law Revision Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 212-14, 232, 327 (Comm. Print 1963). As noted in various reports in the legislative history, enforcement of contractual terms often is impossible because the copyright owner may not know which party breached its terms, or because there is no privity between the importer and the copyright owner, or because the contract must be enforced in the foreign country where the sale or unauthorized distribution took place. *See* Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 126 (Comm. Print 1961). Thus, Congress determined that the only viable solution to prevent parallel importation was enforcement of a copyright owner's parallel importation rights under section 602(a).

If section 109(a) nevertheless is interpreted so broadly that it prevents an action against parallel imports under section 602(a), copyright owners will be left with no practical remedy for preventing parallel importation, directly in contrast to Congress' stated intent.

In sum, the statutory language, surrounding text, and legislative history support the Ninth Circuit's decision in this case, and the prevailing law for the past thirty years. Costco and its *amici's* arguments essentially boil down to a request to change the law for policy reasons. As discussed below, those reasons are dubious and outweighed by substantial benefits of permitting copyright owners

to bar parallel imports that were made abroad for exclusive distribution abroad. In any event, it is the role of Congress to make that determination, not the Court. *See, e.g., Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) ("[I]t is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors . . . in order to give the public appropriate access to their work product.").

II. CONGRESS HAD SOUND POLICY BASES FOR GRANTING COPYRIGHT OWNERS SOME PROTECTION FROM UNAUTHORIZED PARALLEL IMPORTS

The limited rights Congress implemented in section 602 are beneficial to consumers and significant for many copyright owners. The theoretical "parade of horribles" cited by Costco and its *amici* have not come to pass during the quarter century in which section 602 has prohibited most unauthorized parallel import copies. Indeed, the enormous commercial success enjoyed by Costco itself, its online retailer *amici* such as eBay and Amazon, and the unrivaled vibrancy of the U.S. market for copyrighted works, illustrate the fallacy in Costco's speculation.

Costco and its *amici* use the terms "market segmentation" and "price discrimination" in describing section 602, and suggest that such practices are inherently harmful to consumers and the United States economy. But there are a variety of rational and widely beneficial reasons for a

copyright owner to prevent copies made for sale abroad from entering the United States, to compete with copies made for domestic distribution. Some SIIA member companies, for example, introduce slight variations in product presentation or quality to conform to the demand in various countries. Price may be driven by multiple factors, including distribution channels and differing characteristics of regional demand curves. *See generally* William J. Baumol & Daniel G. Swanson, *The New Economy and Ubiquitous Competitive Price Discrimination: Identifying Defensible Criteria of Market Power*, 70 ANTITRUST L. J. 661, 665 (2003). Examples include region-specific test preparation materials, textbooks, and other copyrighted works, with prices based upon various local and international factors.

While these practices often benefit consumers around the world, differentiated pricing is not simply a matter of United States consumers subsidizing foreign markets. It benefits U.S. consumers in the form of newly created copyrighted works (made possible by foreign exploitation), lower domestic prices,[6] expansion and investment in U.S. companies, and employment. *See, e.g.*, Robert D. Anderson et al., *Intellectual Property Rights and International Market Segmentation in the North American Free Trade Area*, in COMPETITION POLICY AND INTELLECTUAL PROPERTY RIGHTS IN THE KNOWLEDGE

[6] Differentiated global pricing often results in a larger global market for a product. The producer's fixed costs, sometimes including first production costs, then have a wider base against which to be recovered, which in turn permits the producer to lower prices in the domestic market to levels that would not otherwise be possible.

BASED ECONOMY 397, 402 (Robert Anderson & Nancy Gallini eds., 2007) ("Without market segmentation, . . . the domestic consumer would not receive the same level of product quality and variety, service, and information that would prevail under market segmentation."). Differentiated pricing also provides enhanced investment opportunities in and for U.S. copyright owners, and allows U.S. copyright owners to more efficiently utilize the exclusive rights granted to them under the Copyright Act. It enhances the value of a U.S. copyright.

Moreover, SIIA members sometimes deem some version of "market segmentation" necessary to comply with the legal regimes of foreign countries or to reduce legal risk in such countries. For example, in the publishing industry, privacy and defamation laws can vary substantially from country to country. *See, e.g., Ehrenfeld v. Bin Mahfouz*, 2006 WL 1096816 (S.D.N.Y. Apr. 26, 2006) (slip op.). In the software industry, data protection and security laws vary.

In short, Congress had multiple, rational reasons to provide copyright owners with a right to preclude certain parallel imports. Its judgment and intent should not lightly be overturned. *See Eldred v. Ashcroft*, 537 U.S. 186, 204 (2003) ("[W]e turn now to whether [the statute at issue] is a rational exercise of the legislative authority conferred by the Copyright Clause. On that point, we defer substantially to Congress.").

The ability of some copyright owners to continue selling market-specific copies of works depends upon maintaining the interpretation of sections 109 and 602 that have prevailed for the past quarter century, and which Congress intended. Without protection against "free riding" by unauthorized distributors, the copyright owner's predominant "standard" market (*e.g.*, the U.S. market) could easily be undercut by an influx of the copyright owner's own competing goods that were made for another market. *See, e.g.*, *Pearson Educ., Inc. v. Arora*, 2010 WL 2300535 (S.D.N.Y. 2010) (distributor liable for copyright infringement, for purchasing foreign editions of a textbook and importing them into U.S. for sale); *John Wiley & Sons, Inc. v. Kirtsaeng*, 2009 WL 3364037 at *5 (S.D.N.Y. 2009) (same).

Costco and its *amici* predict dire consequences if the first sale doctrine is not interpreted to now include foreign-made copies. Indeed, they appear to suggest that secondary markets for copyrighted works will virtually disappear. There is no tangible basis for this suggestion. *See* Omega Br. at 44-47. SIIA, for example, is aware of no evidence that its member companies have moved manufacturing operations abroad as a result of the *Quality King* holding, which distinguished U.S.-made copies from foreign-made copies. And throughout its extensive, ongoing copyright enforcement activities, SIIA is aware of no instance in which a U.S. reseller was sued over a legitimate copy that had been made overseas and imported *with* the copyright owner's authorization.

Thus, there is simply no sound reason for changing the rules that have been in effect for thirty years. *See, e.g., CBS, Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984) (first sale doctrine does not protect unauthorized import of foreign made copies). The Internet has brought about a monumental change in the avenues of doing business, and lowered or virtually eliminated distance-related barriers to regional market entry. Costco argues that these developments merit a change in the way section 109 is interpreted. But as the Court has stated:

> [f]rom its beginning, the law of copyright has developed in response to significant changes in technology. Indeed, it was the invention of a new form of copying equipment - the printing press - that gave rise to the original need for copyright protection. Repeatedly, as new developments have occurred in this country, it has been the Congress that has fashioned the new rules that new technology made necessary.

Sony Corp., 464 U.S. at 430.

III. THE FIRST SALE DOCTRINE DOES NOT IMPACT, AND SHOULD NOT IMPACT, LICENSED COPIES OF WORKS

The SIIA believes that the decision in this case should be affirmed. But if the Court were to find

otherwise, *e.g.*, that the *sales* and import of Omega-brand watches in this case fall within the first sale doctrine, its analysis should avoid jeopardizing the integrity of the many thousands of *licenses* in force. Preventing grey market infringement is but one effect of some licenses, albeit an important one. For example, illegal online "resale" of licensed academic and OEM software on sites such as eBay is a very significant problem and may jeopardize the future availability of discounted software to those markets. But more importantly, the ongoing rights and responsibilities in licenses provide a critical level of clarity and expectations to licensors and licensees in the software and information industries.

It is indisputable that the benefits of section 109 inure only to the "owner of a particular copy" and not one who obtains it by other means, such as under a license. *See, e.g., Quality King*, 523 U.S. at 146–47. This requirement has long exempted various categories of copyrighted works, such as many mass-marketed software products, from the first sale doctrine and the essential steps doctrine of section 117. *See, e.g., Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009) (software transaction was a license with a non-transfer provision, so subsequent acquiring entity infringed when it used the software); *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006) (software distributed under shrink-wrap license, so not owned by the user); *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1362 (Fed. Cir. 1999). It is important that the present case not upset these well established principles.

For several decades, the mass market software industry has relied heavily upon a licensing model for the distribution, maintenance, and updating of its products to and for its customers. Today, licenses govern most mass market software transactions, and the software and information industry has grown to over $500 billion in annual revenues. *See* Software & Information Industry Association, *Software and Information: Driving the Knowledge Economy* (January 24, 2008) at 7-8, http://www.siia.net/estore/globecon-08.pdf. The software and information industry is one of the largest employers in the United States, and is projected to add two million more jobs by 2016. *See* U.S. Bureau of Labor Statistics, National Industry Specific Occupational Employment and Wage Estimates, http://www.bls.gov/oes/current/oessrci.htm#51 (last modified Oct. 24, 2007).

Software publishers realized long ago that the nature of mass market (as opposed to custom built) software does not typically lend itself to sale. Constantly evolving and changing desktop environments, and many concurrently operating software programs, made technical support and regular bug fixes desirable features for consumers. Publishers also learned that providing upgraded software periodically, often at a discounted price, helped retain their customers. The initial payment for the first version of the software often is only the beginning of the relationship between the publisher and customer.

By the same token, the nature of software imposes unusual risks on the publisher. Whether a

customer is running the program on his home computer to edit photo albums, or operating a mission-critical database application in the workplace, the software publisher aims to ensure that the product will continue to function as intended, even as the user's desktop environment, network environment, and hardware may constantly change. The need for providing warranties, but at the same time reducing the inherent risk to economically acceptable and reasonably certain levels, is apparent.

For all of these reasons, licenses evolved as the logical means of transacting mass market software. By clearly setting forth the terms of use and the obligations of the publisher, software companies could gain the certainty and uniformity necessary to make mass software distribution economically feasible. Customers also typically benefit by acquiring rights not provided by copyright law or other intellectual property laws, such as:

- Permitting multiple backup and archival copies stored on various media or locations.
- Permitting multiple log-ins or connections to use a single CD, and make multiple copies.
- Permitting modification and adaption of the code.
- Granting free or reduced price access to updates and upgrades.
- Providing access to ongoing technical support.
- Permitting copying and distribution of the software documentation.

- Permitting sublicensing for purposes of outsourcing.

See Software & Information Industry Association & LicenseLogic LLC, CERTIFIED SOFTWARE MANAGER STUDENT MANUAL (SIIA Publications 2004) at Section 4: Understanding License Agreements 4:1 – 4:62.

Licensing also permits a wider range of users to access and use software. Because the "product" is, in essence, the rights bundled with the code, a publisher need not reduce or degrade the function of its product in order to provide it at a reduced price appropriate for a particular market of users. Rather, the publisher can simply vary the rights of using it. So, for example, a publisher may offer a fully functional "academic" version of its product to students at a deeply reduced price, but the rights granted do not permit use for commercial purposes. *See, e.g., ProCD, Inc., v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) ("Instead of tinkering with the product . . . [software companies] turned to the institution of contract."); *id.* at 1455 ("Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets."). Similarly, "OEM licenses" bundle software with or installed upon specific hardware, such as a scanner or desktop computer, and require the software to be used and distributed only with that hardware. Often, the hardware manufacturer was granted a deep discount as part of the OEM license terms. Another example is "site licenses, which are defined by some geographic restriction on use, such as a specific company, area, or even department or floors of a building. *See, e.g.*, Software & Information Industry Association &

LicenseLogic LLC, CERTIFIED SOFTWARE MANGER STUDENT MANUAL (SIIA Publications 2004) at 4:1 – 4:52.[7]

There is no single, common term that defines a software license.[8] By varying terms such as the extent of transferability, extent of copying, modification rights, export rights, location and type of use, the publisher can provide a price-appropriate product appropriate for the varying needs of various markets. Consumers benefit significantly. And licensing allows publishers to manage the risks inherent in providing a product constantly susceptible to reverse engineering, copying, and other misuse, and to balance potential liability should it fail to perform as intended.

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[7] Licenses also are the foundation of open source software development and distribution. *See, e.g., Jacobsen v. Katzer*, 535 F.3d 1373, 1378 (Fed. Cir. 2008) ("Open source software licenses, or 'public licenses,' are used by artists, authors, educators, software developers, and scientists who wish to create collaborative projects and to dedicate certain works to the public."); GNU General Public License, Preamble, http://www.fsf.org/licensing/licenses/gpl.html (November 14, 2009).

[8] While a hallmark of licensing or leasing a physical good may be return of that item at some point, the same cannot be said for software. It is, by its nature, ephemeral and infinitely reproducible. While the plastic disc, or floppy disk, or other media used to convey it or store it may, in theory, be requested back by the publisher, to do so would be relatively pointless and highly inefficient. *See, e.g., DSC Comme'ns*, 170 F.3d at 1362 (Fed. Cir. 1999).

Licenses are essential to the ordered functioning of the mass market software industry and other significant U.S. businesses. While some of them have the effect of so-called "market segmentation" just as the Omega watch *sales* in this case, a license to a copy is distinct from a sale and does not typically convey "ownership" of the copy. Thus, even if Costco's reproduction and sales of watches abroad are held to trigger the first sale doctrine, the Court should avoid any implication that it affects the licensing of copyrighted works.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

SCOTT E. BAIN
Counsel of Record
KEITH KUPFERSCHMID
MARK BOHANNON
SOFTWARE &
INFORMATION INDUSTRY
ASSOCIATION
1090 Vermont Av. NW
Suite 600
Washington, DC 20005
(202) 289-7442
sbain@siia.net

Counsel for *Amicus Curiae* Software & Information Industry Association

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